

Minnesota Department of Finance

February 1997

Highlights

Economic Outlook Improves for F.Y. 1997

The U.S. economic expansion continues on without a hint of hesitation. A large increase in exports caused fourth quarter GDP growth to exceed even the most optimistic forecasts. But, since further export growth is thought unlikely, the additional fourth quarter activity is widely believed to only add to the economy's base level and not raise future growth rates or increase inflationary pressures. Data Resources Inc. now expects real GDP to grow by 3.0 percent in F.Y. 1997, up 0.5 percent from November. Growth rates for F.Y. 1998 and 1999 remain unchanged at 2.3 percent and 2.0 percent respectively.

Strong State Economy Boosts Revenues, Reduces Human Services Spending-- 1996-97 Forecast Balance Up \$344 Million

Minnesota's economy continues to outperform the forecasts. Unemployment remains well below levels observed earlier in this cycle and wage growth has been stronger than anticipated. That wage growth translates into additional income tax revenue. The state's low unemployment rate and apparent abundance of jobs also reduces the need for increases in human services spending.

Revenues for the 1996-97 biennium are now expected to total \$19.335 billion, \$236 million or 1.2 percent more than forecast in November. Savings in current year spending total \$108 million, almost all in Human Services entitlement programs.

Forecast Improves Outlook For F.Y. 1998-99 Budget by \$548 Million

Much of the good news on revenues and human services spending carries forward into the 1998-99 biennium. The forecast for general fund revenues for the next biennium has been increased by \$268 million, or 1.3 percent. Projected spending falls by \$281 million or 1.5 percent. In total, this forecast adds \$548 million to the ending balance of the proposed 1998-99 budget.

When reported on a current law basis consistent with past forecasts, \$600 million in projected education expenditures associated with 1997 law changes affecting K-12 education appropriations must be subtracted from the ending forecast balance. When that is done, the ending balance for F.Y. 1999 falls by \$52 million from the November forecast.

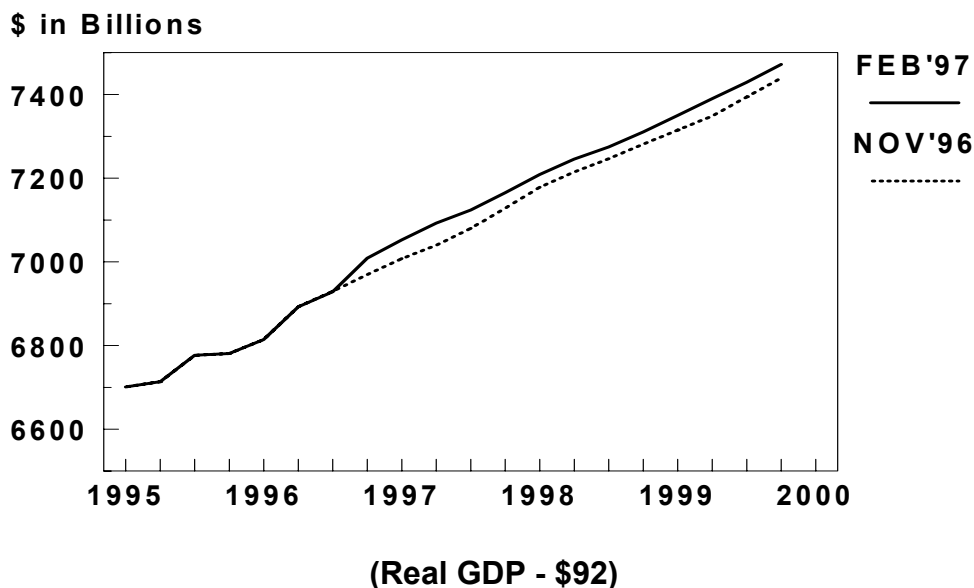
BUDGET SUMMARY

Recent Economic Strength Yields Forecast Gains

The U.S. economy continues to exhibit championship form. Even though the current expansion is more than 70 months old, there are no signs it is coming to a close. Inflation has never been this low this late in the business cycle; labor force participation rates continue to increase, helping to relieve some wage pressures; and total compensation, which includes both wages and fringe benefits, has grown more slowly than wages for two years.

Preliminary estimates show fourth quarter, 1996 real GDP grew by 4.7 percent, more than double the rate expected in November. However, most forecasters, including Data Resources Inc., (DRI), Minnesota's national economic consultant, changed their forecasts only slightly following release of that data. Base level forecasts for the current year were increased to reflect the growth reported, but assumptions for future growth are unchanged. In their February, 1997 Control forecast, DRI raised the expected real GDP growth rate for F.Y. 1997 to 3.0 percent, a full 0.5 percentage point more than November's forecast. Growth rates for fiscal 1998 and 1999 remained at 2.3 percent and 2.0 percent respectively, the same as forecast in November.

Economic Outlook Has Improved Since November



Higher Revenues, Lower Spending Increase F.Y. 1996-97 Balance to \$866 Million

Forecast revenues for F.Y. 1997 increase by \$236 million and projected expenditures decline by \$108 million. The combined \$344 million in forecast changes increases the projected available balance for the 1996-97 biennium to \$866 million.

F.Y. 1996-97 Budget Outlook
(\$ in millions)

	<u>November</u>	<u>February</u>	<u>Difference</u>
			<u>e</u>
Beginning Balance	\$1,021	\$1,021	\$0
Forecast Revenues	19,099	19,335	236
Estimated Expenditures	18,801	18,693	(108)
Cash Flow Acct	350	350	0
Budget Reserve	261	261	0
Dedicated Reserves	186	186	0
Available Balance	\$522	\$866	\$344

Stronger than expected growth in the U.S. economy and higher year-end receipts yields additional revenues in F.Y. 1997. About 70 percent of the revenue increase comes from the individual income tax where higher than anticipated wages, combined with revised estimates of capital gains, farm income, and local merger and acquisition activities adds \$169 million to expected receipts. Investment income, up \$34 million, is the second largest source of additional revenue. Changes in all other F.Y. 1997 revenues are small.

A \$106 million decrease in projected health care and family support entitlement program spending accounts for nearly all of the decline in F.Y. 1997 spending. The affected programs benefit from lower utilization rates as well as lower costs.

Outlook For 1998-99 Improves

The revenue forecast for F.Y. 1998-99 increases by \$267 million and spending projections fall by \$281 million. The resulting forecast gain is \$548 million.

F.Y. 1998-99 Budget Forecast (\$ in millions)

	<u>November</u>	<u>February</u>	<u>Difference</u>
Forecast:			
Revenues	\$20,485	\$20,752	\$267
Expenditures	19,568	19,287	(281)
Difference	\$917	\$1,465	\$548
Additional Spending:			
K-12 Law Change	NA	600	600
Net Difference	917	865	(52)

Consistent with past forecast practices, that gain is offset in this report by costs associated with the 1997 legislation which removed appropriation limits on K-12 Education spending. This law change and associated discretionary inflation add \$600 million to projected spending, yielding a net reduction in the forecast balance for 1998-99 of \$52 million.

It is important to note that the Governor's budget, now before the legislature, included removal of K-12 spending limits. As a result, the K-12 law changes have no impact on the balance projected for the Governor's budget.

Much of the increased revenue for F.Y. 1998-99 comes from the individual income tax. Individual income taxes are expected to total \$9.526 billion for the biennium, \$185 million (1.8 percent) more than previously forecast. The higher wage base forecast for tax year 1996 and the slightly stronger wage growth now expected throughout the forecast horizon are the sources of much of the income tax growth. Expected sales tax receipts increase by \$53 million (0.8 percent) over November's estimates.

State spending, before considering the law change removing K-12 Education appropriation limits, is projected to be \$19.287 billion, \$281 million less than previously forecast. Virtually all of the projected saving is in the Department of

Human Services' health care and family support programs. Total health care spending is now projected to be \$241 million less than forecast in November. AFDC and General Assistance are down \$31 million and \$10 million, respectively from November's estimates.

The lower forecast for human services spending in F.Y. 1998-99 reflects F.Y. 1997 savings continuing into the next biennium. By F.Y. 1999 caseload reductions of 9.0 percent for the elderly and disabled on Medical Assistance and 12.0 percent for Aid to Families with Dependent Children are expected from previously forecast levels.

Outyear Projections Indicate Positive Revenue-Expenditure Balance

The current law planning estimates for F.Y. 2000-01 provide a basis to identify whether revenues and expenditures will remain in balance through the end of the five year planning horizon. Under the current forecast, the state's budget remains in structural balance through the end of F.Y. 2001.

F.Y. 2000-01 Planning Estimates (\$ in millions)

	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>
Revenues	\$10,992	\$11,470
Expenditures	10,700	11,145
Difference	\$292	\$325

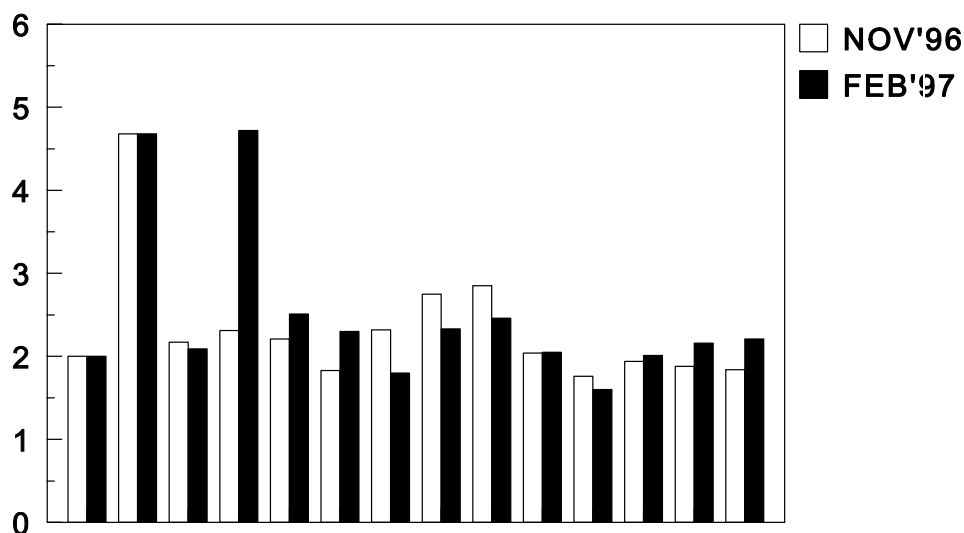
The F.Y. 2000-01 planning estimates, however, do not reflect 1998-99 budget proposals by the Governor or future actions by the 1997 legislature. The projections represent a current law "baseline" against which proposed actions can be compared and reported.

ECONOMIC SUMMARY

"The best of all possible economies just keeps rolling along." That comment, taken from the lead of a recent Merrill Lynch weekly economic report summarizes well the prevailing sentiment among economists. Currently there are few signs of renewed inflation, economic growth is continuing at a sustainable rate, and none of the excesses that typically lead to a round of Federal Reserve interest rate increases are visible. Indeed, some key economic statistics thought to be leading indicators of future inflationary pressures have even improved in recent months. No one believes that the business cycle has been completely eliminated, but few see any serious threat to the continuation of the current economic expansion emerging for at least another year. Most forecasters believe that a recession is unlikely until at least 1999.

The February Control forecast from Data Resources Inc. (DRI) is consistent with that optimistic consensus outlook. The 4.7 percent growth rate for fourth quarter GDP was more than twice that expected. Indeed, DRI notes the 2.4 percentage point error in their fourth quarter forecast was one of their largest errors in recent history. But, because so much of the quarter's unexpected growth came from an unusually large increase in exports and was considered unlikely to continue, fourth quarter results had little impact on expected future growth rates.

Percent Change in Real GDP



Most forecasts, including the DRI Control, were revised to show a one time increase in the economy's base level, but little change in future projected growth rates. DRI's February Control now anticipates real GDP growth at an annual rate of 3.0 percent during fiscal 1997, a full 0.5 percent faster than expected in November. Almost all of the forecast is due to the observed, stronger fourth quarter growth. For fiscal 1998

and 1999 forecast GDP growth rates remain unchanged at 2.3 percent and 2.0 respectively.

Members of Minnesota's Council of Economic Advisors agreed with DRI's outlook. Each member had a different list of concerns about the future, but all admitted nothing they saw on the horizon was likely to impede economic growth during the next two years. Increased labor costs were thought by several members to be the most likely starting point for the future cost increases which eventually will bring this expansion to an end. Finance Department economists noted that there had been large increases in state withholding tax receipts in recent months. Those increases are believed to be due to higher average earnings, since withholding receipts have grown substantially faster than the number of employed.

Most Council members believed that DRI's February Control forecast was more likely to be too optimistic rather than too pessimistic. Finance Department economists agreed. The long term sustainable growth rate for the economy is generally considered to be about 2.5 percent, and the current and recent DRI forecasts have been for growth at an annual rate of 2.3 percent through the end of the century. That leaves little room for growth in excess of the forecast.

Finance Department economists noted once again that DRI's forecast, as well as those of most others, rely heavily on a substantial and instantaneous increase in worker productivity. A recession will not automatically follow should those projected productivity increases not materialize, but annual real GDP growth rates of less than 2.0 percent would be expected, leading to state revenues materially below those currently forecast.

DRI assigns a 55 percent probability to the February Control Scenario, the same as in November. A boom-bust scenario, which contains a recession in 1999, is assigned a probability in 35 percent while a scenario which has the economy entering a recession in the third quarter of 1997 is given a 10 percent probability. Unlike most years DRI currently is not offering a scenario in which the economy outperforms the Control forecast over the forecast horizon.

Minnesota's Council of Economic Advisors continues to believe that prudent financial practices call for Minnesota to follow the lead of other states and increase the state's budget reserve now, while the economy is strong. Minnesota's current budget reserve of \$270 million is only about 1.4 percent of projected biennial expenditures, well below the long term goal of 5 percent recommended for the state.

ECONOMIC OUTLOOK

The economy accelerated at year's end, but not quite as much as reported fourth quarter 1996 real GDP suggests. According to preliminary data, real GDP rose at a 4.7 percent annual rate with a surge in exports accounting for some 2.0 percentage points. DRI indicates quirky seasonal adjustment probably overstates exports. Otherwise, the fourth quarter increase is consistent with their expectations for enough strength to justify an incremental Federal Reserve tightening in the spring.

Most forecasters are confident GDP will not deviate for long from a 2.0 to 2.5 percent annual growth path because they see nothing operating to push it off course. Household spending can rise only modestly because of record installment debt, while retrenchment is unlikely because of robust confidence supported by gains in jobs and incomes. Elsewhere in the economy, there are no excessive inventories to undermine factory orders, business capital spending is steady, inflation is subdued, and there are no Federal Reserve interest rate increases working their way through the system.

No significant destabilizing forces exist at this time, but some could easily develop. Rising inflation followed by sharply higher interest rates is by far the leading concern. Unless strong productivity gains appear soon, there are likely to be inflationary increases in unit labor costs which could prompt the Federal Reserve to raise interest rates, possibly by more than necessary. Monetary fine tuning depends heavily on judgment, so a mistaken response to a real or perceived acceleration in inflation is a major risk to stable GDP growth. And regardless of what the Fed does, the bond market long ago proved it can always overreact to events on its own. An excessive boost in interest rates from either source could precipitate an abrupt downturn in the stock markets, causing a loss of confidence and a retrenchment in consumer spending. DRI is not among those who believe stocks are seriously overvalued, but they remind their clients that a fiasco like the crash in 1987 cannot be ruled out.

Productivity Improvements Must Arrive Soon

The recently reported rise in productivity is suspect because it is based on the optimistic fourth quarter GDP estimate. As in November, the February Control strains credibility by assuming genuine productivity gains which are far larger than those of the past few years. This assumption looks tenuous to Finance Department economists because typically in the late stages of an expansion productivity does not rise, it declines. In addition, data revisions are not going DRI's way. The Bureau of Labor Statistics has lowered its estimate of 1995 non-farm business productivity growth from 0.6 percent to only 0.2 percent. This suggests the 1996 estimate which is now 0.8 percent may be revised downward as well. Even if the 1996 data hold up, the economy will have managed a total productivity increase of only 1.8 percent

since 1992, which is a lot less than DRI's current assumption of 1.1 percent per year compounded for 1997-1999. If the productivity assumption is not met, rising compensation is likely to cause inflationary increases in unit labor costs. In that case, DRI warns that the Federal Reserve will almost certainly raise interest rates enough to slow the economy below the Control forecast.

A few analysts think there is a possibility that if compensation rises without offsetting productivity gains, firms will be forced to accept lower profits because competitive pressures will keep them from passing along price increases. In this event, no Federal Reserve tightening would be necessary. After study, Goldman Sachs economists discount this possibility while DRI does not appear to have ever seriously considered it.

The Pressure Is Off The Federal Reserve

Some observers suggest the Fed's successes of the past few years indicate it has learned a lot about smoothing the business cycle. Others think a large element of luck is involved. But much of this discussion seems beside the point. In the view of Finance Department economists, what matters most right now is that there are currently no Federal Reserve interest rate increases working their way through the system to surface at a time when the economy is temporarily weakened by an unforeseen event. This greatly increases the likelihood the economy could survive a shock sometime during the next two years. The potential for future errors is also reduced because recently some pressure has been taken off the Fed to raise rates should a few signs of inflation emerge. Over the past few months the financial markets have done Dr. Greenspan's job by raising long term rates slightly whenever news of renewed strength surfaces.

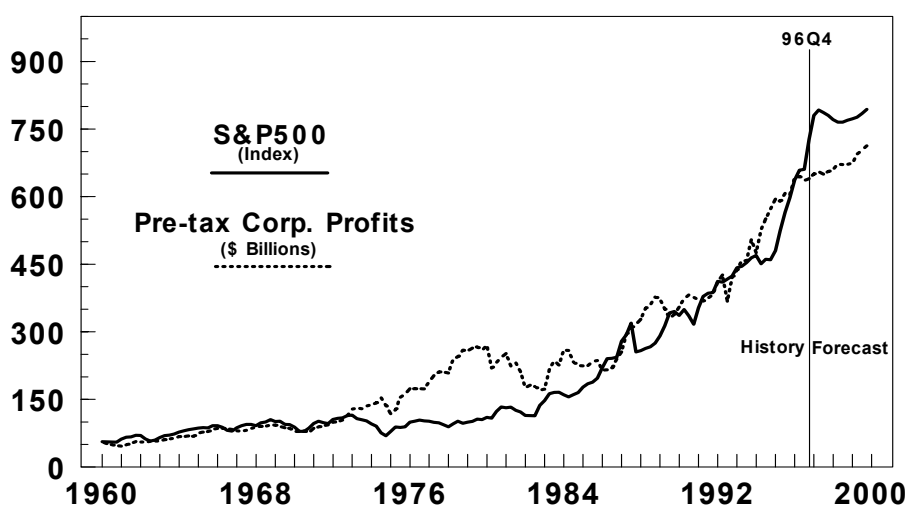
A Stock Market Crash Is Unlikely

Not many analysts are predicting stock prices will decline abruptly anytime soon. DRI expects only a modest correction at most in 1997 primarily because they do not foresee either of the two most likely causes of a crash. One, a significant decline in profits would in their view occur only in the unlikely event of a recession. They also discount the possibility that equities are grossly overvalued in a speculative bubble which will burst if the Federal Reserve raises interest rates modestly in the spring. In DRI's view, stocks are only slightly overvalued relative to bonds because the spread between the average price-earnings ratio and bond yields is close to its 15 year norm.

A few analysts point to indicators which they contend suggest a sharp downturn is likely. A Wall Street Journal article reports the 30 Dow Jones stocks currently sell at higher prices relative to book value than they did just before the crash of 1929. They also sell at a higher price dividend ratio than they did just prior to the last major correction in 1987, often referred to as a crash, when the Dow fell 508 points or 22.5 percent.

Virtually everyone considering whether another debacle is likely, or what consumers' reaction would be, realizes this now almost decade-old experience is an imperfect guide to the future. Because assets held in mutual funds are now a much more important part of the market than they were in 1987, the first of two major questions most analysts focus on is whether a modest correction would cause a massive sell off by fund holders, precipitating a crash. The other is whether now older baby boomers with retirement savings invested in stocks would shrug off another crash as they did the one in 1987.

Corporate Profits and the Stock Market



Except for the period of high inflation in the late 1970's and early 1980's, stock prices and profits have always been closely related. In the February Control, stock prices rise sharply relative to profits even though a market correction is predicted.

Would Mutual Fund Holders Bail Out?

Although they have been available since the 1950's, it is only in the past several years that mutual funds have become an especially popular way for individuals to invest. Flows into funds currently are setting new records and trading by stock fund managers now constitutes the equivalent of more than 48 percent of trading on the New York Stock Exchange, up from 10 percent in 1980 according to the Wall Street Journal. A key reason for funds' rising popularity is that they offer diversification otherwise unavailable to small investors, making them a favorite place for baby boomers' retirement savings.

Some financial market analysts worry about industry surveys showing stock fund holders would bail out if the markets decline abruptly even by a relatively small amount. In recent years, significant corrections have been relatively rare. The last

downturn in the S&P 500 index as large as 10 percent, which no one calls a crash, occurred in 1990. Since then, fund shares have been sold to many who have little experience with market volatility and may be ill-prepared for it. According to the Wall Street Journal, industry surveys reveal some 70 percent of mutual fund holders have never experienced a correction as large as the one in 1990. About 40 percent of respondents say they would sell some or all their holdings if the stock market dips 15 percent in a short time.

Other analysts are skeptical of the surveys. They doubt there would be massive redemptions which would force managers to dump fund holdings because many investors are saving for retirement or other reasons reflecting long term time horizons. Also, experience from the 1987 crash suggests that there would be no panic and that most investors redeeming their stock funds would park the cash in the money market and re-invest within a few months.

Would Consumers Retrench?

Should the stock market decline abruptly, confidence may fall enough to cause a retrenchment in household spending. Since consumer outlays are two-thirds of GDP, a significant retrenchment could lead to a recession. Forecasters are inclined to think the risk is low because spending is well supported by gains in jobs and incomes. But the worst cannot be ruled out because both record debt levels relative to disposable income and large amounts of retirement savings invested in stocks significantly increase the uncertainty attached to predictions of consumer behavior. While the role of confidence in spending decisions is controversial, there is virtually no question that when households become sufficiently wary of the future they postpone purchases in favor of debt repayment. No one knows whether a crash would make large numbers of people that wary because it is unclear how closely they link the short term behavior of the stock market with their future welfare and the economy's performance.

In the past, consumers have often but not always ignored events in the stock market. Consequently, dips in the market are not always reflected in the economy. Downturns in equities have occurred during every postwar recession, but there have been more downturns than recessions. Relatively large, abrupt market declines subjectively called crashes are so rare reliable inferences cannot be made even though it seems clear some were not followed by a recession. DRI considers the most recent four crashes to be those of 1929, 1937, 1962, and 1987. In 1962, the market crashed while the economy was in early recovery, while in 1987 the previous recession was years in the past. In both post-war episodes no recession followed because, in DRI's view, there were no underlying weaknesses in financial institutions or elsewhere in the economy that the debacles could exacerbate as there were in 1929 when a recession was already underway, or in 1937 during the Depression.

Consumption

Except in cases where stock market movements affect confidence, or aggravate existing weaknesses, there seems little reason for equities prices to have a big impact on consumer spending decisions. As stocks rise, the need for savings declines, so consumers can spend more of their income. But spending depends primarily on householders' age, family size, and ability to make payments. Thus econometricians say total consumer outlays ordinarily rise by only two or three percent of any gains in net worth. And recently, according to Goldman Sachs economists, households have not even spent that much, leaving a large part of 1995 and 1996 gains intact. If these measurements are correct, then relatively little current consumer spending depends directly on stock market generated wealth.

While a consumer led recession in 1997 or 1998 is thought to be unlikely, forecasters are concerned that large numbers of bankruptcies indicate many households are having financial difficulty. This, together with heavy debt loads and absence of pent-up demand at this late date in the third longest postwar expansion, suggests consumers could decide to reduce or at least slow growth in spending in favor of paying off debt. In the February Control, household outlays are expected to contribute more to real GDP growth than all other major spending categories combined. This will only be possible if consumers continue to be willing and able to carry current levels of debt relative to income.

In the past, studies of indebtedness were reassuring because they showed that most debt was in households able to afford payments. Recently, though, DRI reports an increasing proportion of debt concentrated in lower income households. Aggressive credit card marketing may be one reason for this. News articles indicate lenders are now tightening credit standards. No one knows how much impact this will have on total spending, but a sharp cutback in bank credit card activity is part of DRI's February hard landing scenario for 1997 which is given a 10 percent probability.

Investment

One year ago, it looked like excessive inventories could lead to a decline in factory orders and possibly a recession. Fortunately, the GM strike and a springtime spurt in consumer spending cleared the shelves. Since then, inventories have stayed lean because firms have planned more carefully and Christmas sales were good enough to clear out stocks. DRI does not expect another inventory overhang to develop in the foreseeable future, eliminating a potential source of instability in the economy.

During 1996, new home sales set records, outpacing estimates of demand based on demographics. Analysts attribute this strength to strong confidence, favorable interest rates, and previously unnoticed demand. In the February Control, DRI projects a gradual decline during 1997 and 1998 to levels consistent with demographic trends. Monthly sales will slip to about 640,000 at a seasonally

adjusted annual rate, down from more than 700,000 during 1996, while starts will decline from 1996's 1.5 million to about 1.3 million in 1998.

Last year, gains in real business capital outlays slowed to an approximately 6.0 percent annual rate that DRI thinks will be sustained for several quarters. Despite the slowdown, investment spending is strong compared to real GDP, and the February Control forecasts it will remain so. Business Week reports investment currently constitutes 11.3 percent of GDP, up 2.4 percentage points since 1992 and the highest level since 1988. At the pace firms are expected to spend, effective capital in place relative to GDP will rise toward levels not seen since output was depressed by the recession of the early 1980s. This time there is no recession in the outlook, so capacity utilization will remain close to the current 83 percent, keeping new plant and equipment coming on line fully employed.

If capital employed per unit of output rises as forecast, most economists believe the more intensive use of capital should raise labor productivity. Their caveat is that the capital must embody productivity improving technology. This currently seems to be the case because firms are investing heavily in more sophisticated computers and communication equipment. But unfortunately, negligible productivity gains during the past four years suggest business has almost nothing to show for its new information technology. Economists are almost completely at a loss to explain this, forcing DRI to admit their forecast for productivity improvement in the February Control is based almost entirely "on faith."

Government

President Clinton's five-year budget plan did nothing to change DRI's view that the federal deficit will only be reduced to about \$100 billion by 2002. In the February Control, real federal spending declines steadily. Reduced defense outlays will account for the largest part of the cutbacks, but non-defense spending will also erode. DRI assumes these spending cuts will be accomplished with economies rather than with not yet enacted cuts in major programs. Slightly tighter eligibility requirements for welfare programs and minor changes in Medicare are assumed to be used to finance a small personal tax cut involving child credits beginning in 1998. Despite economies, the Federal deficit on a unified basis is forecast to rise to \$124 billion in calendar 1998 compared to \$107 billion in 1996, and then decline to \$95 billion by 2001.

Some major unresolved budget issues could affect future forecasts. Federal transportation legislation passed in 1991 which authorized spending \$151 billion over the past six years expires September, 30. Funding for a proposed \$180 billion extension could come from the Highway Trust Fund. But if it does without offsetting cuts elsewhere, the federal deficit will rise as the Treasury borrows from the markets to honor IOUs which are the Trust Fund's only assets.

Decisions the 105th Congress may make concerning Medicare and Social Security could also affect the outlook. Changing Medicare benefits or taxes could have significant implications for growth in aggregate demand for goods and services. Privatizing Social Security could affect interest rates and saving in the economy, again with potential impacts for both private sector investment as well as consumer spending.

International

A rising dollar and strong demand for oil, autos, and computers pushed the trade deficit to record levels in 1996. DRI forecasts both the dollar and the deficit will continue to rise into 1998. By 1999, the deficit will level off while the dollar begins a slow decline through 2001.

Uncertainty and economic weakness abroad which are currently boosting the dollar may eventually postpone its decline. Shaky prospects for the European Economic Union set to begin January 1, 1999 and low interest rate policies intended to stimulate the weak German and French economies are driving international investors out of European assets and currencies and into their dollar denominated counterparts. Business Week reports that low interest rates in Japan's soft economy are driving Japanese investors into U.S. Treasury issues. As a result, overseas demand for dollars to buy U.S. securities has been especially strong. Foreigners now hold more than 30 percent of all marketable Treasury debt.

The buildup of foreign holdings is potentially destabilizing. International capital is very mobile and can be quickly withdrawn. Some analysts have been concerned that Japanese banks might withdraw theirs to cover bad loans and losses in the Tokyo stock market. Should Japanese or other foreign investors make massive sales of U.S. securities, interest rates would rise and volatility in both bond and stock markets would increase. Hoping to avoid this, the Federal Reserve some time ago quietly made yet to be used arrangements with the Bank of Japan to help Japanese investors avoid selling their U.S. securities, but the details are not public knowledge.

Monetary

Relatively calm markets are a major contributing factor in most forecasters' sanguine outlook. Volatility in both bonds and equities creates uncertainty for consumers and firms which could cause them to postpone spending decisions. DRI has long warned that a financial debacle could precipitate an abrupt slowdown in the economy, but usually their primary concern is the bond market. Stocks are rarely a matter of concern as they have been recently because equity prices usually adjust in an orderly manner to changes in interest rates determined in the bond markets.

Since the Fed virtually never comments on stocks, Chairman Greenspan seemed to be out of place jawboning equities with his "irrational exuberance" speech in early

December. There is, though, a question as to just who his message was for. Surprised investors drove stock markets down at first but then reversed course and eventually bid prices up to new records, possibly because they decided the message was not for them.

DRI reports the Chairman's remarks came a day after his German counterpart suggested the foreign exchange value of the dollar would rise because of uncertainty over the value of the euro, the currency to be circulated when the European Economic and Monetary Union begins. Dr. Greenspan had reason to be concerned because a rising dollar has at least two undesirable consequences. First, the lure of currency profits could add significantly to the flow of international "hot" money already moving into U.S. financial markets. Second, a higher dollar would also make U.S. goods less competitive overseas, raising the trade deficit and destabilizing the economy. So, although he never explained himself, the timing suggests Dr. Greenspan was warning international investors the Federal Reserve would intervene in the foreign exchange markets if need be in order to stabilize U.S. financial markets and keep the trade deficit under control. In early February, this message was reinforced by a statement from the G-7 meeting indicating that the major industrial countries would not like to see the dollar continue to rise.

Inflation

Over the past few months, the outlook for inflation has improved despite 1996's surge in food and energy prices. Business Week reports core consumer inflation, which is all items except food and energy, fell to 2.6 percent in 1996, the lowest in more than 20 years. In the February Control, all consumer prices are now estimated to have increased 2.9 percent in 1996, down from 3.0 percent in November. For 1997, the consumer price index is expected to rise 2.7 percent, with another 2.7 percent increase in 1998. This is down slightly from November's forecast for 3.0 percent in 1997 and 2.8 percent for 1998. Similar revisions were also made for the GDP deflator and the employment cost index for total compensation, while the forecast for the producer price index was raised slightly.

A few economists, most notably those at Goldman-Sachs, argue that inflation's good performance comes from structural changes in the U.S. economy which are making it more efficient and forward looking, and thus less cyclically sensitive and less inflation prone. Virtually all other forecasters including DRI attribute 1996's mild inflation to a unique set of fortuitous circumstances recently summarized by Business Week.

At the top of the Business Week list is slow growth in employer's benefit costs. One-time savings from the switch to managed care have kept total compensation in check even though wages have accelerated in a tight labor market. Better than expected capital spending for structures has also helped by adding manufacturing capacity which is easing production bottlenecks. The rising value of the dollar has cut import prices, with non-oil import prices falling 2.2 percent since April, 1995.

Finally, last summer's lull kept the economy slightly below its non-inflationary potential output.

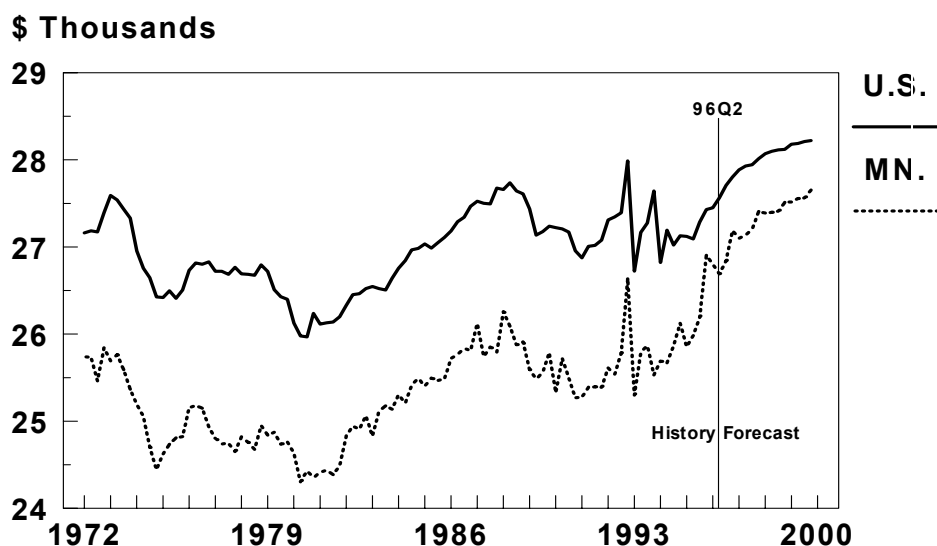
Business Week points out, though, that what happens next depends on productivity and on wages. With current labor force growth, payroll employment can expand about 150,000 per month on a seasonally adjusted basis without inflationary pressure on wages. This is a lot less than January's 271,000, or the 194,000 average for the last six months of 1996.

MINNESOTA OUTLOOK

New information on wages from the Department of Economic Security and continued strong withholding collections indicate incomes are rising faster than expected in Minnesota's tight labor market. Total wages and salaries are now estimated to have increased 7.0 percent in 1996, up from the 6.3 percent forecast in November. Preliminary data show Minnesota employment rose 2.2 percent in 1996, up slightly from 2.1 percent estimated in November. In comparison, DRI says U.S. total wages rose 5.8 percent, down slightly from November's 5.9 percent estimate, while employment growth is unchanged at 2.0 percent.

For 1997, Minnesota jobs are forecast to increase 1.7 percent, unchanged from November. This much growth will keep labor markets tight, so total wages should rise 5.4 percent, up from 5.2 percent forecast in November. For the U.S., DRI forecasts 1997 employment will rise 2.1 percent, up from 1.6 percent in the November Control, while total wages will increase 5.7 percent, up from 5.4 percent.

Annual Real Wages Per Job



Minnesota real wages surged in late 1995 and early 1996 as labor markets tightened. The forecast is for continued wage growth, but with Minnesota wages staying more in line with

Risks To The Forecast

There are special risks associated with projecting an economy operating as close to capacity as Minnesota's appears to be. For state and regional economies, labor force migration can be significant, so there is no generally accepted way to calculate potential output as a means of judging how fast expansion can proceed. Wage increases accelerated even though employment growth slowed from 2.8 percent in 1995 to 2.2 percent in 1996, suggesting that additions to the labor force can no longer keep up with the economy's need for additional workers. At some time in the near future, it is possible that Minnesota firms may find further expansion difficult because of labor shortages or impractical because of labor costs. Consequently, there is a risk that Minnesota employment or wages, or both, will underperform the forecast. In Wisconsin, which is also experiencing tight labor markets and rising wages, their forecasters relate that annual employment growth unexpectedly slipped to 1.2 percent in 1996, after averaging 2.7 percent annually during the previous three years.

Data Problems Persist

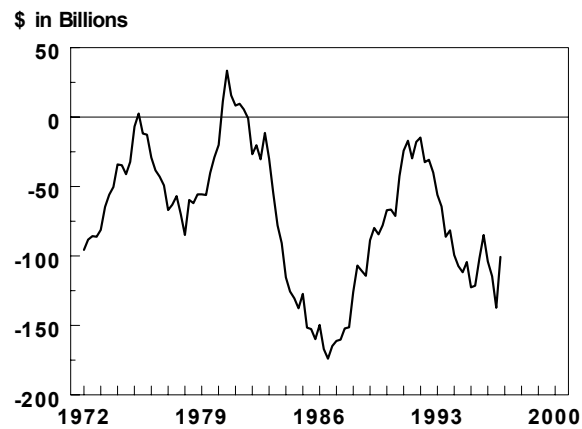
Estimates of total wages paid in Minnesota during the past few years are critical to the revenue forecast because they are a key variable used to age a sample of State income tax returns into the future. Thus, the forecast begins with an analysis of what has happened since the base year, currently 1994.

Minnesota wage data first released by the U.S. Department of Commerce last November and again in early February seem of poorer quality than that provided earlier. Commerce indicates it is introducing new methodology to account for unreported employer contributions to retirement plans and revisions will not be completed until later this year. Compared to data prepared using the old methodology, the new information is less consistent with data on total wages provided by the Minnesota Department of Economic Security and used by Finance Department economists to judge the quality of the official Commerce estimates. It is also less consistent with income tax collections in 1995 and 1996. For these reasons, Commerce data based on the old methodology released last July was relied on for the February forecast, as it was in November.

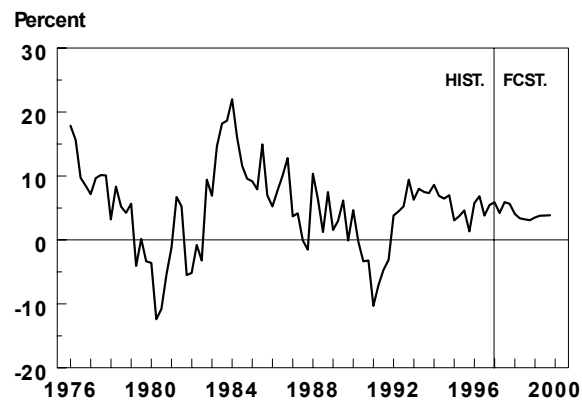
Finance Department economists hope problems with the Commerce data will be resolved in future releases scheduled for next April and July. But in case they are not, the possibility of abandoning the official Commerce information in favor of the Department of Economic Security data for the November, 1997 forecast will be examined. The impact of such a change is unknown at this time.

Selected National Economic Indicators

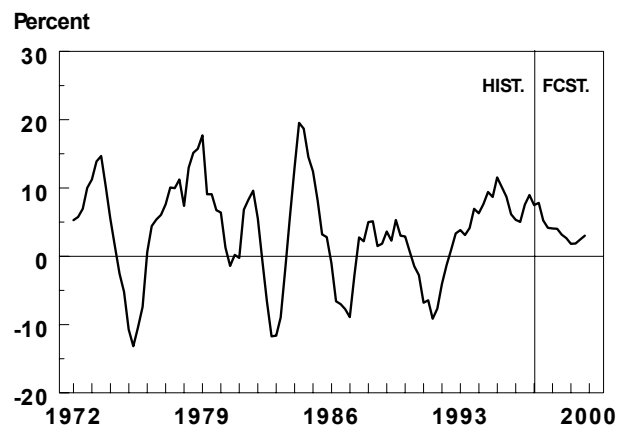
U.S. TRADE BALANCE (\$1992)



GROWTH IN REAL CONSUMER DURABLES SPENDING

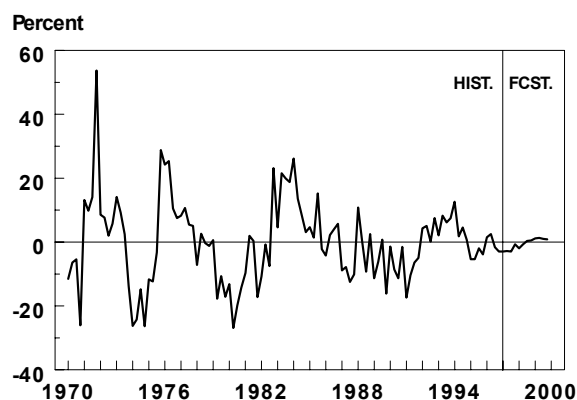


REAL BUSINESS INVESTMENT IN PLANT AND EQUIPMENT

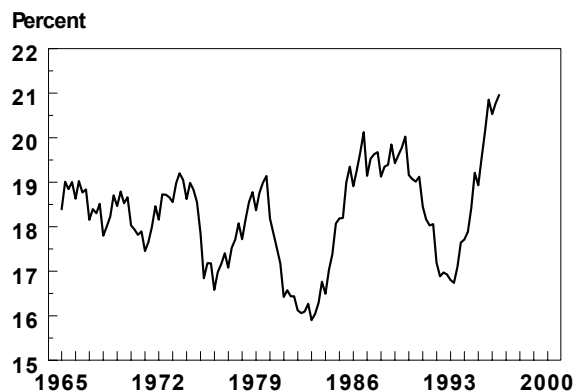


Selected National Economic Indicators

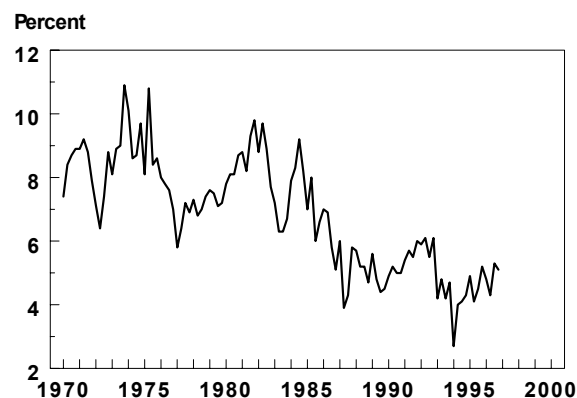
CHANGE IN CAR SALES PER JOB



INSTALLMENT CREDIT OUTSTANDING
AS A PERCENT OF DISPOSABLE INCOME

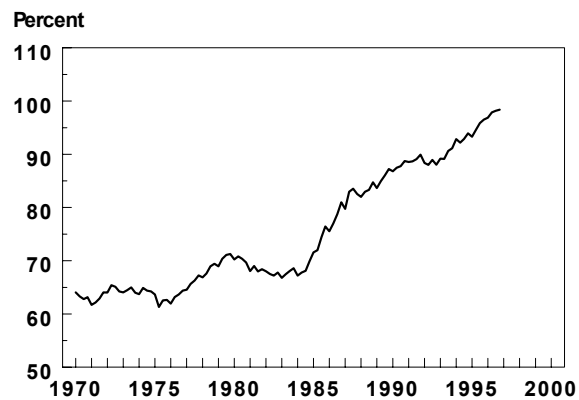


SAVING AS A FRACTION OF DISPOSABLE INCOME

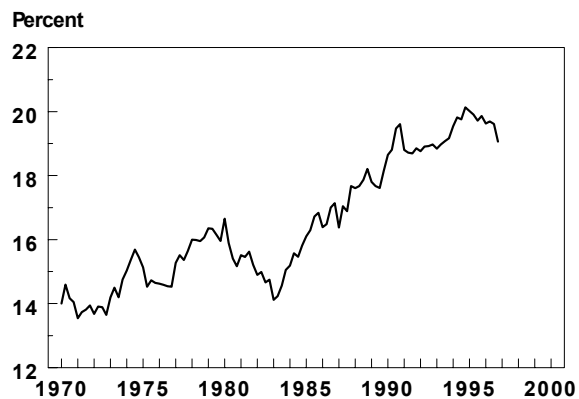


Selected National Economic Indicators

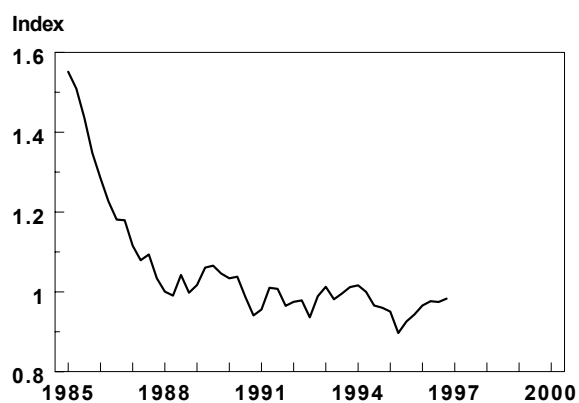
HOUSEHOLD FINANCIAL LIABILITIES
AS A SHARE OF DISPOSABLE INCOME



HOUSEHOLD FINANCIAL LIABILITIES
AS A SHARE OF NET WORTH

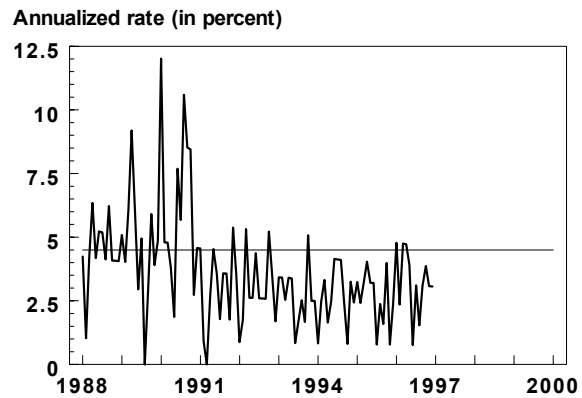


TRADE-WEIGHTED VALUE OF THE DOLLAR

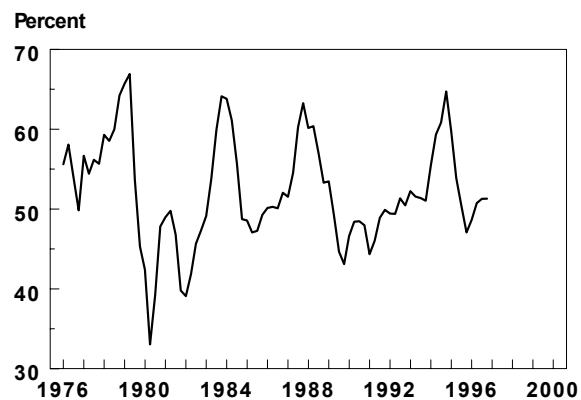


Selected National Economic Indicators

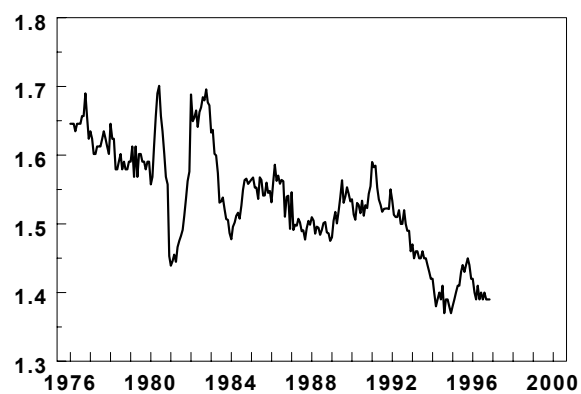
CONSUMER PRICE INDEX



PROPORTION OF COMPANIES REPORTING SLOWER DELIVERIES

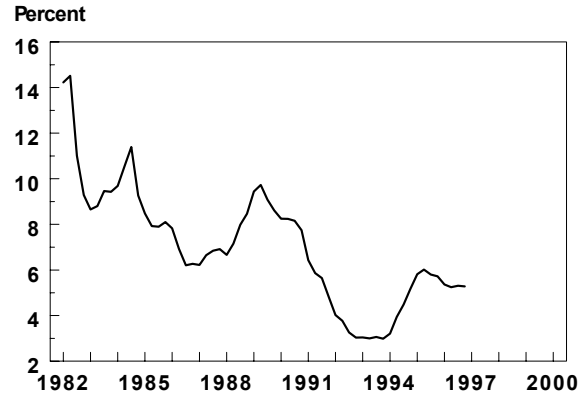


MANUFACTURING AND TRADE INVENTORY TO SALES RATIO

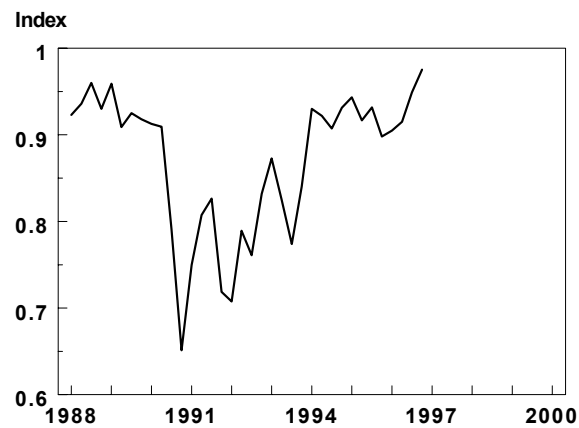


Selected National Economic Indicators

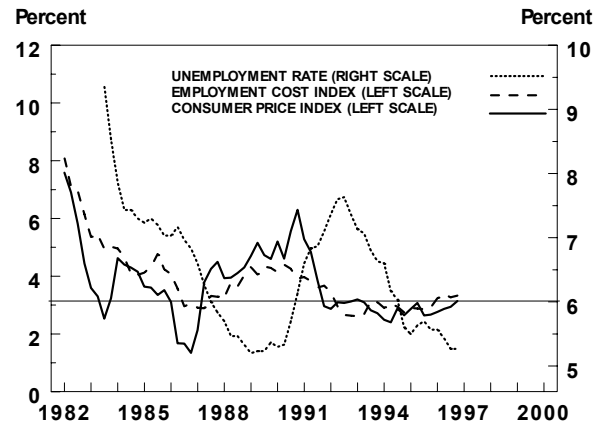
FEDERAL FUNDS RATE



INDEX OF CONSUMER SENTIMENT



INFLATION AND UNEMPLOYMENT



F.Y. 1996-97 BUDGET SUMMARY

F.Y. 1997 Ending Balance Now Estimated At \$862 Million

Projected F.Y. 1997 revenues and other resources have increased by \$236 million for the current biennium while projected expenditures have declined by \$108 million. Together, these changes increase the projected available balance for the biennium from the \$522 million forecast in November to the current forecast of \$866 million.

F.Y. 1996-97 -- Current Biennium Change from November 1996 Estimates (\$ in millions)

	<u>November</u>	<u>February</u>	<u>Difference</u>
Beginning Balance	\$1,020	\$1,020	\$0
Forecast Revenues	19,099	19,335	236
Estimated Expenditures	18,801	18,693	(108)
Cash Flow Acct	350	350	0
Budget Reserve	261	261	0
Dedicated Reserves	186	186	0
Available Balance	\$522	\$866	\$344

An increase of \$177 million in the four major taxes accounts for seventy-five percent of the revenue increase. Of this amount, \$169 million comes from higher individual income tax collections. A \$34 million increase in expected investment earnings in F.Y. 1997 was the other large change in the forecast.

A \$106 million decrease in estimated F.Y. 1997 spending for health care and family support entitlement programs accounts for nearly all of the net decrease in spending. A marginal \$7 million increase in Education Aids estimates is offset by a 9 million reduction in other spending categories.

F.Y. 1996-97 Revenue Forecast

Current general fund resources for the 1996-97 biennium are now expected to reach \$19.335 billion, \$236 million (1.2 percent) more than forecast in November. Nearly all of the additional revenue comes from the individual income tax and investment earnings. Increases in other taxes and non tax revenues were small, reflecting variations in year- to- date receipts.

Revenues from the four major taxes are now forecast to be \$16.752 billion in the 1996-97 biennium, an increase of \$177 million over November's projections. Stronger growth in individual income tax receipts adds \$169 million to the forecast. There are also small increases in the sales tax and motor vehicle excise tax forecast and a small decrease in the outlook for corporate income tax revenues. Other tax revenues increased by \$22 million, and other non-tax revenues, principally investment earnings, by \$34 million.

F.Y. 1996-97 Revenue Forecast (\$ in Millions)

	<u>FY94-95 Biennium</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY96-97 Biennium</u>
Revenues				
Individual Income Tax	7,293	4,135	4,546	8,681
Sales Tax	5,245	2,901	3,041	5,942
Corporate Income Tax	1,218	702	668	1,370
Motor Vehicle Excise Tax	681	381	378	759
Four Major Taxes	14,437	8,119	8,633	16,752
Other Revenues	2,138	869	943	1,811
Net Non-dedicated Revenue	16,575	8,988	9,576	18,563
Other Resources	309	413	359	772
Current Resources	<u>16,884</u>	<u>9,401</u>	<u>9,935</u>	<u>19,335</u>

Net non dedicated revenues for 1996-97 are now forecast to grow by 12.0 percent over 1994-95, adjusted for the transfer of revenues to the Cambridge settlement fund. Income tax receipts in the current biennium are expected to be 19 percent more than that received in the 1994-95 biennium. Net sales tax revenue growth for the biennium is projected at 13.3 percent. Continued strong growth in wage and salary disbursements, the recovery of the farm sector from the flood induced losses of 1993, high levels of capital gains realizations, and one time events associated with merger and acquisition activity involving local companies all contributed to the unusually high growth rate observed for individual income tax receipts.

Individual Income Tax

Individual income tax receipts for the 1996-97 biennium are now forecast to reach \$8.681 billion up \$169 million from November's forecast. F.Y 1997 income tax receipts are now estimated to be \$4.546 billion, up 3.9 percent from November's estimates.

Income tax receipts have exceeded monthly projections by more than \$200 million since October. The positive variance in withholding receipts was \$52 million, while that for estimated taxes (declarations) was \$146 million. (See table on page 51) The reconciliation of projected tax year 1996 liability with year-to-date individual income tax receipts was a major factor shaping the forecast.

Apparent changes in the definition of state level wage and salary disbursements as reported by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) have compromised that data's usefulness as an indicator of recent wage and salary growth. In this forecast actual data on wages was available only through the second quarter of 1996. For the remainder of 1996, the forecast of wage and salary growth was adjusted to be consistent with currently observed withholding receipts. The result was substantially stronger growth in wages and salaries than projected in November. That stronger growth rate builds a higher base level of wages for 1996, and that higher base level of wages was allowed to continue through to the end of the forecast horizon, adding significantly to revenues in each subsequent year of the forecast.

In some previous forecasts unusual fourth quarter growth in withholding receipts was accommodated by a one time, off-model, adjustment to wages which did not add to base level wages or to projected revenues in future years. Past experience suggests the increase should be in the base. Choosing to add permanently to the wage base increases the risk that revenues will fall short of the forecast. Should the increase in withholding reflect only taxpayer desires for larger refunds, or efforts to reduce the balance due on April 15, and not actual increases in wages, revenues will fall short of forecast. Similarly, should this increase reflect only temporary increases in hours worked and overtime hours worked, and not a permanent change in the wage base, income tax receipts in the future will fall short of the levels in this forecast. Changes in the assumption about wage growth in 1996 accounted for more than one-third of the additional F.Y. 1997 income tax revenue, and for about half of the additional income tax revenue generated for the 1998-99 biennium.

Several changes were made to November's forecast to reconcile it with the unusually high level of fourth quarter estimated tax payments received in late December and early January. The projected growth rate for capital gains was increased, consistent with the continued strength of the stock market in 1996. The HITS model's treatment of taxable distributions from IRAs and other tax deferred retirement plans was also changed significantly following review of preliminary

information on sources of income in tax year 1995. A separate inflator was added to better reflect the strong growth observed. Federal rules requiring that distribution plans for such accounts must follow an actuarial basis for all individuals over 70½ years of age will generate automatic increases in income as the value of portfolios rise. While affecting only a small portion of the tax base directly, this change has significant revenue impacts since it indirectly affects the amount of social security income subject to tax. Growth rates for farm income and interest income were also increased based in part on preliminary information from the 1995 sample. Finally, in November's forecast tax year 1996 merger and acquisition activity involving local firms was assumed to affect only individuals' final payments, not their estimated payments. Department of Revenue data disaggregating fourth quarter estimated payments by size of payment indicated that a significant portion of the variance in those receipts could be the pre-payment of liabilities that had been forecast to be paid in April and thus would be only a shift in the timing of receipts and not an increase in projected liability.

Receipts from fiduciary returns, while only a small part of total collections, were substantially above historical levels in 1995. The forecast continues to assume that growth rates return to more normal levels in 1996 and 1997.

Other changes in the relative weights assigned different sources of income based on the preliminary results from the 1995 sample were minor. In general, wages received a slightly larger weight and sources of non-wage income a smaller weight. Completion of the processing of tax year 1995 returns created no material change in the forecast of tax liability.

Sales Tax

Net receipts from the sales tax are expected to reach \$3.041 billion in F.Y. 1997, \$12 million more than forecast. Actual receipts since November were less than 0.1 percent below forecast levels, while DRI's forecast for growth in spending for consumer durables and business capital equipment were increased modestly, leading to a small increase in forecast sales tax revenues for fiscal 1997.

Corporate Income Tax

Expected corporate income tax revenue in F.Y. 1997 was reduced to \$668 million, \$7 million (1.0 percent) less than November's estimates. Year-to-date estimated tax payments are currently \$8 million less than forecast, and refunds for tax year 1995 filers are \$12 million more than anticipated. Those reductions are offset in part by a slight improvement in DRI's forecast of pre-tax corporate profits. As in November, this forecast is based on the DRI forecast of pre-tax corporate profits, not the checking equation.

Corporate refunds required under the Cambridge Bank decision are treated as expenditures from the Cambridge Settlement Fund, not netted against current

corporate income tax receipts. A total of \$196 million in Cambridge related refunds have now been paid, about 90 percent of currently estimated liability. Several refund decisions remain under appeal, however. Resolution of those appeals could add materially to the expected final liability.

Motor Vehicle Excise Tax

Motor vehicle excise taxes are now forecast to be \$378 million for F.Y. 1997, up \$3 million from November. The \$4 million positive variance observed since November was offset slightly by DRI's less optimistic outlook for sales of light vehicles. While DRI's forecast for unit light vehicle sales for the first half of 1997 is up slightly from November, the expected dollar volume of sales has been reduced, reflecting further pricing pressures in the auto industry.

Other Revenues

Other tax and non tax revenues are now expected to total \$943 million, up \$56 million (6.3 percent) from November's estimates. The forecast for investment income was increased by \$34 million reflecting year-to-date receipts and expected increases in cash balances through the end of the current fiscal year. Expected inheritance tax receipts were increased by \$10 million, insurance gross premiums tax receipts by \$7 million, and the deed and mortgage tax by \$2.8 million, all consistent with year-to-date receipts.

Expenditure Forecast F.Y. 1996-97

Expenditures in the 1996-97 biennium are forecast to total \$18.693 billion, \$108 million less than estimated in November. The majority of the decrease, \$106 million, is accounted for by reductions in human services programs, which decline by approximately 6 percent. Technical adjustments to F.Y. 1997 spending estimates account for the remaining difference.

F.Y. 1996-97 GENERAL FUND SPENDING

(\$ in thousands)

	<u>November 1996</u>	<u>February 1997</u>	<u>Difference</u>
<u>Actual & Estimated Spending by Function</u>			
Education Aids	\$5,940,652	\$5,947,267	\$6,615
Property Tax Recognition	\$494,832	\$494,832	\$0
School Payment Change (90/10)	\$156,751	\$156,421	(\$330)
Post-Secondary Education	\$2,147,577	\$2,146,199	(\$1,378)
Property Tax Aids & Credits	\$2,411,860	\$2,411,888	\$28
Other Major Local Assistance	\$833,367	\$832,150	(\$1,217)
Health Care	\$2,976,294	\$2,879,612	(\$96,682)
Family Support	\$472,354	\$463,177	(\$9,177)
State Operated Institutions	\$826,523	\$826,647	\$124
Legislature, Judicial, Const. Officers	\$476,375	\$478,196	\$1,821
State Agencies' Operations & Grants	\$1,418,607	\$1,411,112	(\$7,495)
Debt Service	\$438,934	\$438,934	\$0
Estimated Cancellations	(\$15,000)	(\$15,000)	\$0
Subtotal-Major Spending Categories	\$18,579,126	\$18,471,435	(\$107,691)
Dedicated Expenditures	\$221,599	\$221,599	\$0
Total Expenditures & Transfers	\$18,800,725	\$18,693,034	(\$107,691)

Human Services Changes Yield in Forecast Savings

Total spending for Health Care and Family Support programs has been reduced by \$106 million from the November forecast. Medical Assistance (MA) spending declines \$89.4 million due to lower average payments and projected reductions in the caseload for families with children, the elderly, and disabled persons. The average monthly enrollment in MA is down nearly 14,000, or 3 percent from levels anticipated in November. General Assistance Medical Care (GAMC) costs have also been reduced due to caseload reductions.

Aid to Families with Dependent Children (AFDC) and General Assistance (GA) spending declines \$9.2 million due to lower estimates of both caseload and average monthly payments. The anticipated number of AFDC recipients for F.Y. 1997 is down by approximately 4,000, or 2.3 percent from levels forecast in November.

FOUR YEAR PLANNING HORIZON

F.Y. 1998 - 2001 Budget Planning Estimates

This section contains estimates of revenues and expenditures for the F.Y. 1998-99 budget which will be enacted this session. It also provides the planning projections for the following biennium, F.Y. 2000-01.

February's forecast provides revised revenue and expenditure estimates for the budget currently being considered by the 1997 legislature. In November, projected expenditure estimates included mandatory spending limits passed in the 1995 session for K-12 education. Those limits were removed by legislation enacted in February 1997.

For planning purposes, expenditure projections include discretionary inflation increases of 3.0 percent per year.

F.Y. 1998-99 Forecast Change from November 1996 Estimates (\$ in millions)

	<u>November</u>	<u>February</u>	<u>Difference</u>
Beginning Balance	1,319	1,663	344
Forecast:			
Revenues	20,485	20,752	267
Expenditures	19,568	19,287	(281)
Balance	2,236	3,128	892
Additional Spending: K-12 Law Change	NA	600	600
Cash Flow Account	350	350	0
Budget Reserve	261	261	0
Dedicated Reserves	186	186	0
Ending Balance	1,438	1,731	292

Higher Revenues, Lower Human Services Spending Are Offset by Removing Education Aids Spending Limits

November's forecast projected a \$1.4 billion balance for F.Y. 1998-99. A slight improvement in forecast revenues of \$267 million and a projected \$281million reduction in forecast spending is offset by recognition of the impact of enacted legislation that removes K-12 appropriation limits. This law change adds \$270 million to the projected K-12 expenditure base for F.Y. 1998-99, plus discretionary inflation of \$330 million for a total spending increase of \$600 million.

F.Y. 2000-01 planning estimates reflect similar revenue and expenditure changes

Planning estimates of current law revenues and expenditures for F.Y. 2000-01 are presented as part of budget development to identify longer term impacts. Revenue planning estimates are based on DRI long term forecasts for the 1999-2001 period. Expenditure estimates assume current laws and policies updated for caseload, enrollment and other forecast variables in all major program areas. Expenditure estimates also include the potential cost of discretionary inflation of 3.0 percent per year. The estimates do not reflect the Governor's budget recommendations, nor anticipate any legislative changes.

F.Y. 2000-01 Planning Estimates Change from November 1996 Forecast (\$ in millions)

	<u>November</u>	<u>February</u>	<u>Difference</u>
Beginning Balance	\$2,235	\$2,528	\$292
Revenues	22,150	22,462	312
Expenditures			
Forecast	21,445	21,019	(426)
K-12 Law	NA	826	826
Change			
Total	21,445	21,845	400
Expenditures			
Cash Flow Account	350	350	0
Budget Reserve	261	261	0
Dedicated Reserves	186	186	0
Ending Balance	\$2,144	\$2,348	\$204

The projected ending balance in F.Y. 2000-01 shows little change from the November forecast. However, this reflects the net result of several fundamental changes in the estimates.

State revenues for the period are now projected to be \$312 million higher than projected in November.

Projected spending for F.Y. 2000-01 reflects the continued savings from the reduction in human services spending for Health Care and Family Support in the current forecast. When discretionary inflation is considered, the human services saving reflects \$403 million of the \$426 million decrease in spending.

Finally, as was the case in F.Y. 1998-99 estimates, planning estimates for K-12 education have increased by \$842 million mostly due to the impact of the removal of expenditure limits in 1998-99. The projections include the compounded effect of 3.0 percent discretionary inflation over the entire F.Y. 1998 to F.Y. 2001 period.

Governor's proposed budget recognized K-12 law changes, other items

It is important to note that current law planning projections are used to analyze how future projected revenues and expenditures match based on trend projections of Minnesota's economy and the current structure of government services. The Governor's budget, currently before the legislature, included removal of K-12 spending limits and specific program and budget recommendations and initiatives for all spending areas. As a result, the K-12 law changes do not change the Governor's proposed budget. The changes in forecast revenue, human services spending, and other forecast changes will have corresponding, but not necessarily identical, fiscal impacts on the Governor's proposed 1998-99 budget.

Revenue Forecast F.Y. 1998-99

Total current resources for the 1998-99 biennium are now forecast to total \$20.752 billion, up \$268 million, (1.3 percent), from November's forecast. Almost all additional revenue comes from the individual income and sales taxes.

Revenues from the four major taxes are forecast to reach \$18.214 billion during the 1998-99 biennium, \$230 million more than forecast in November. Expected income tax receipts have been increased by \$185 million (1.9 percent), and expected sales tax receipts, by \$53 million (0.8 percent). Corporate income taxes increase by \$14 million while expected motor vehicle excise tax receipts fall by \$22 million. All changes in the four major taxes were within normal levels of variation.

F.Y. 1998-99 Revenue Forecast (\$ in Millions)

	<u>FY96-97 Biennium</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY98-99 Biennium</u>
Revenues				
Individual Income Tax	8,681	4,642	4,884	9,526
Sales Tax	5,942	3,200	3,354	6,554
Corporate Income Tax	1,370	693	706	1,399
Motor Vehicle Excise Tax	759	361	374	735
Four Major Taxes	16,752	8,896	9,318	18,214
Other Revenues	1,811	916	903	1,819
Net Non-dedicated Revenue	18,564	9,812	10,220	20,032
Other Resources	772	351	369	720
Current Resources	<u>19,336</u>	<u>10,163</u>	<u>10,589</u>	<u>20,752</u>

Net non-dedicated revenues in 1998-99 are forecast to grow by 7.9 percent over levels currently projected for the 1996-97 biennium. Net receipts from the income tax and the sales tax now increase by 9.7 percent and 10.3 percent, respectively, substantially less than the 19 percent and 13 percent growth rates now projected for the 1996-97 biennium. The continuing phase out of the sales tax on replacement capital equipment explains much of the differences in sales tax growth rates between bienniums. Variations in capital gains realizations and farm income, and the presence of large one time events, including an usually large increase in the average wage per return in tax year 1996 all contribute to the slower growth rate in 1998-99.

Individual Income Tax

Receipts from the individual income tax in the 1998-99 biennium are now forecast to total \$9.526 billion, up \$185 million or 2.0 percent from the November forecast in November. Much of that increase is due to the higher wage growth incorporated in the forecast for 1996 and 1997. That wage growth adds to the base in tax years 1998 and 1999, increasing revenues in those years as well. Projected growth rates for wage and salary disbursements in 1998 and 1999 were also increased. Those changes in wages explain the largest portion of the forecast changes for 1998 and 1999.

Net capital gains are assumed to grow at more normal levels during the 1998-99 biennium, consistent with DRI's projections of only modest growth in stock market averages. No changes in federal tax treatment of capital gains are anticipated in this forecast. Should the federal tax rate on capital gains be cut, state revenues would be likely to increase in the short run. Distributions from tax deferred retirement accounts were assumed to increase at the rate of growth in private pension income.

Sales Tax

Net sales tax receipts for the 1998-99 biennium are now expected to reach \$6,554 billion, \$53 million more than forecast in November. The small, 0.8 percent, increase in revenues reflects a modest improvement in DRI's outlook for growth in consumer durable spending and business capital equipment purchases, the two largest components of Minnesota's sales tax base. Minnesota's share of total U.S. sales also increases, reflecting the slightly stronger projections for the state economy.

Corporate Income Tax

Corporate income taxes are estimated to total \$1.399 billion in the 1998-99 biennium, up 1.0 percent from levels now forecast for the 1996-97 biennium. DRI's outlook for corporate profits has changed little from November. Corporate profits are expected to grow only slightly in 1997 and 1998, following the strong profit growth observed in 1995 and 1996. Corporate profits remain the most volatile of all state revenue sources.

Motor Vehicle Excise Tax

Motor vehicle excise taxes for the 1998- 99 biennium are forecast to be \$735 million, down \$22 million from November's estimates. DRI has reduced their forecast for the dollar volume of sales of motor vehicles and parts from November's estimate.

Other Revenues

Other tax and non tax revenues in the 1998-99 biennium are expected to exceed levels forecast in November by \$56 million, or 3.2 percent. A revised forecast for inheritance and estate taxes adds \$20 million to 1998-99 revenues. Mortgage and deed tax receipts, and the insurance gross premiums tax were increased by \$6 million and \$9 million, respectively, consistent with higher observed growth in 1997. Investment income is now expected to be \$115 million during the next biennium, \$15 million more than forecast in November.

Revenue Planning Estimates F.Y. 2000-01

Current resources for the 2000-01 biennium are now projected to total \$22.462 billion, 8.2 percent more than the 1998-99 forecast.. The 2000-01 planning estimate is \$312 million, (1.5 percent) more than November's estimate. The four major taxes are expected to grow by 9.3 percent, while other tax and non tax revenues remain nearly constant.

This baseline planning estimate is not an explicit forecast. It is simply an extrapolation of projected trends in the economy. Because of the way it is constructed, any changes in the base level of revenues for fiscal 1997, 1998, or 1999 will be reflected in the planning estimates for 2000 and 2001. Other things equal, stronger than anticipated growth in any one of those years will add significantly to revenues available in the 2000-01 biennium. Similarly, should the economy grow more slowly than forecast during any of the next three years, the revenue outlook for 2000-01 will deteriorate.

These revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong through 1999, the planning estimates are likely to underestimate future revenues. But if the economy fails to perform at the high level anticipated in the February DRI Control, the planning estimates will overstate future revenues. Actual revenues could exceed or fall short of these estimates by as much as \$1.5 billion, depending on the economy's performance during the next 5 years.

F.Y. 2000-01 Revenue Planning Estimates (\$ in Millions)

	<u>FY98-99</u> <u>Biennium</u>	<u>FY00</u>	<u>FY01</u>	<u>FY2000-01</u> <u>Biennium</u>
Revenues				
Individual Income Tax	9,526	5,114	5,340	10,454
Sales Tax	6,544	3,498	3,643	7,141
Corporate Income Tax	1,399	735	776	1,511
Motor Vehicle Excise Tax	<u>735</u>	<u>391</u>	<u>409</u>	<u>800</u>
Four Major Taxes	18,214	9,738	10,168	19,906
Other Revenues	<u>1,819</u>	<u>905</u>	<u>918</u>	<u>1,823</u>
Net Non-dedicated Revenue	20,032	10,643	11,086	21,729
Other Resources	<u>720</u>	<u>350</u>	<u>384</u>	<u>734</u>
Current Resources	<u>20,752</u>	<u>10,992</u>	<u>11,470</u>	<u>22,462</u>

The projected growth rate for F.Y. 2000-01 revenues exceeds that forecast for the 1998-99 biennium. Revenue growth rates in the 1998-99 biennium were unusually low because of several one time events which raised expected tax liabilities in 1997. When compared to growth rates in previous biennia, revenue growth in F.Y. 2001-

2002 is only slightly slower than average.

Estimates of F.Y. 2000-01 revenues are based on DRI's Summer 1996 Cycle and February, 1997, Control forecasts. Nominal growth rates for key variables used in projecting tax revenues are computed by multiplying the appropriate inflation estimate for the year in question from the Control forecast by the average real growth rate for the series computed over the entire 25 year Cycle forecast horizon. In October, 1996 DRI extended the forecast horizon for its Control forecast to 5 years. There is, however, no history on the reliability of the four and five year Control forecast. The Department of Finance has chosen to continue use of its current methodology for preparing revenue planning estimates. Department economists will evaluate the DRI Control's year four and year five projections throughout the coming biennium and, after consultation with the Council of Economic Advisors decide whether those projections should become the base for the long term planning estimates in November 1998.

Individual income tax estimates were prepared using the House Income Tax Simulation Model. Assumed filer growth in Minnesota was consistent with average national employment growth in the Cycle forecast. All elements of taxable income and all individual itemized deductions were assumed to grow at the rate of DRI forecast for taxable personal income. Calendar year income tax liabilities were converted into fiscal year revenues using the same proportions as forecast for 1999.

Future sales tax revenues were estimated by computing percentage growth rates for each of seven broad categories of products in the sales tax base. Those growth rates, based on real growth from DRI's Summer, 1996 Cycle forecast and inflation from the February 1997 Control forecast, were then weighted by the fraction of the expected 1999 sales tax base attributable to each category of purchases. The sum of the weighted growth rates was used as a measure of expected growth in the sales tax base for 2000 and 2001.

Corporate tax receipts in Minnesota were estimated to grow at the same rate as the DRI's forecast of national before tax corporate profits. Minnesota's motor vehicle excise tax collections are expected to grow at the same rate as the national consumption of motor vehicles and parts. Planning estimates for other tax and non tax revenues were prepared by extrapolating existing trends.

It is impossible to anticipate the economy's performance four or five years in advance. Economic projections that far into the future can only be extrapolations of historical trends consistent with the current short term outlook. It is important to remember that the long term revenue planning estimate is only a guide to what revenues four and five years from now might be, not a guarantee of a specific level of revenues, and that there can be large positive or negative errors in that long term estimate.

Expenditure Projections F.Y. 1998 - 2001

Under current law, expenditure estimates for F.Y. 1998-99 total \$19.891 billion, a 6.4 percent increase over the current forecast for the F.Y. 1996-97 biennium. For the following biennium, F.Y. 2000-01 spending is expected to rise to \$21.845 billion, a 9.8 percent increase over F.Y. 1998-99. These figures reflect the removal of appropriation limits on K-12 spending for the 1998-99 biennium enacted during the 1997 session.

Planning estimates are projections of the cost of continuing current law programs after adjusting for changes in education enrollment, human service program caseload, net tax capacity, the number of households, and other factors affecting entitlement programs.

The planning estimates provide for a 3.0 percent annual increase in the cost of goods, services and major state grant programs for each year, F.Y. 1998-01. This *discretionary* inflation is not required by current law, but reflects the impact of expected price increases on the cost of government operations.

F.Y. 1998-2001 EXPENDITURE PLANNING ESTIMATES (\$ in thousands)

	Forecast <u>F.Y. 1998-99</u>	Plng. Est <u>F.Y. 2000-01</u>
Education/Children & Families	\$6,709,956	\$7,332,078
Property Tax Recognition	0	0
School Payment Change (90/10)	0	0
Post-Secondary Education	2,171,040	2,311,684
Local Aids & Credits	2,450,641	2,443,221
Other Major Local Assistance	958,568	1,043,065
Health Care	3,615,038	4,463,699
Family Support	476,577	503,754
State Operated Institutions	897,259	987,308
Legislature, Judicial, Const.	481,531	509,225
State Agencies	1,360,548	1,448,729
Debt Service and Other	545,759	581,809
Estimated Cancellations	(20,000)	(20,000)
Subtotal	19,646,917	21,604,572
Dedicated Expenditures	240,510	240,510
Total Spending	\$19,887,427	\$21,845,082

Total net spending for both the F.Y. 1998-99 and F.Y. 2000-01 biennia is up from the November 1996 forecast. Legislative action to remove spending caps increases the estimates of K-12 spending by \$600 million in F.Y. 1998-99 and \$826 million in F.Y. 2000-01, including discretionary inflation. This increase is partially offset by significant decreases in human services spending due to reduced participation rates and lower than anticipated medical assistance payments, and a marked reduction in AFDC and GA caseloads.

Change from November Forecast
F.Y. 1998-99 and F.Y. 2000-01 Expenditure Estimates
 (\$ in thousands)

	Forecast	Plng. Est
	<u>F.Y. 1998-99</u>	<u>F.Y. 2000-01</u>
Education/ Children & Families	\$614,516	\$841,510
Property tax Recognition	0	0
Post-Secondary Education	779	0
Local Aids & Credits	(319)	(23,704)
Other Major Local Assistance	592	(1,662)
Health Care	(241,058)	(331,268)
Family Support	(41,013)	(71,645)
State Operated Institutions	(9,863)	(11,424)
Legislature, Judicial, Const.	1,326	0
State Agencies	(5,726)	(1,521)
Debt Service and Other	(138)	(577)
Estimated Cancellations	0	0
Subtotal	319,096	399,709
Dedicated Expenditures	0	0
Total Spending	\$319,096	\$399,709

Elementary and Secondary Education

Elimination of Appropriation Limits Increases Education Spending Projections by \$270 Million in F.Y. 1998-99

Provisions passed by the 1997 Legislature and signed into law by the Governor removed the FY 1998-99 appropriation limits for K-12 education, increasing the forecasted baseline for those programs by \$270 million over the November forecast.

This increase is the net effect of removing the three elements of the appropriation limits from F.Y. 1998-99 projections: 1) the \$75 decrease in the general education formula; 2) the decreases in the secondary pupil weight scheduled for both F.Y. 1998 and F.Y. 1999; and 3) the positive offset of \$67 million in unallocated funds.

Removal of the appropriation limits for F.Y. 1998-99 adds an additional \$330 million in projected inflation over the November, 1996 forecast.

Other Education/Children & Families Program Increases Total \$14 Million

Of this total, \$13.4 million of the increase relates to changes in the general education program, due to the combination of several factors including an \$8.8 million biennial decrease in the estimates for permanent school fund earnings and a \$5.8 million biennial decrease in school district fund balance adjustments.

These items offset the cost of the general education program. When earnings from these items fall, the result is an increased obligation for the general education program. The impact of these increased obligations was slightly reduced by miscellaneous reductions of \$1.2 million. Pupil unit estimates have not changed since the November forecast.

Removal of Appropriation Caps Increases F.Y. 2000-01 Estimates by \$826 million

Planning estimates for education, children & family programs have increased by \$826 million since the November forecast, due to removal of the appropriation caps for 1998-99, and the compounded effect of adding discretionary inflation on the entire uncapped base throughout the FY 1998-2001 period. Other changes in projected education spending total \$15 million for the F.Y. 2000-01 biennium, for a total net change of \$841 million.

While Chapter 499, Laws 1992, repealed all school finance laws effective June 30, 1999, both the November forecast and the current forecast assume continuation of existing law.

Property Tax Aids and Credits

F.Y. 1998-99 Unchanged; FY 2000-01 Local Aids and Credits Decrease Due to Correction

Planning estimates for the 2000-01 biennium for local aids and credits are \$24 million lower than forecast in November due largely to a correction in the Regular Homeowner's Refund. The November forecast did not "freeze" the F.Y. 2000 refund at F.Y. 1999 levels, as required by current law which changes that refund from a direct payment to individuals to a reduction on their property tax statement.

Human Services Programs

1998-99 Human Services Expenditures Decline by \$282 million

Total human services spending for F.Y. 1998-99 is projected to decline by \$282 million from the November forecast. Most of the change is associated with a downward correction in current spending pressure. Overall growth trends remain similar to November's estimates.

Medical Assistance (MA) spending is the major source of savings. These projected expenditures fall by \$218 million from November's estimates. Expenditures for General Assistance Medical Care (GAMC) are forecast to decrease by \$9 million and expenditures for the Chemical Dependency entitlement will drop \$4 million. Expected spending on income maintenance programs also shows a significant decline by \$39 million from November's estimate. These decreases cause a corresponding decrease of \$12 million in discretionary inflation for these programs.

Declines in Human Services Spending February Forecast (\$ in thousands)

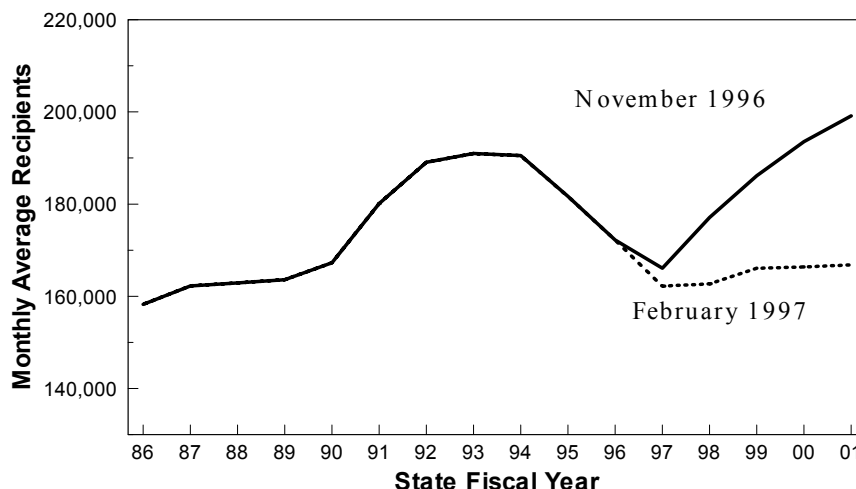
	<u>F.Y. 1997</u>	<u>% change</u>	<u>F.Y. 1998-99</u>	<u>% change</u>
Aged & Disabled Basic Care (MA)	47,029	14%	136,553	16%
AFDC & Family Basic Care (MA)	25,161	8%	59,348	8%
Other Health Care	24,493	3%	34,971	1%
Family Support	9,176	5%	39,137	10%
Discretionary Inflation	--	--	12,062	5%
Total DHS	105,859	4%	282,071	5%

Strong Economy Reduces Enrollment

Minnesota's projections for a strong economy appears to be reducing the state safety-net programs. Enrollment in nearly all human service programs are lower than those forecast in November. F.Y. 1999 total MA enrollment is 8% lower than November's estimates. The number of elderly and disabled in MA is expected to decline by 5% and AFDC/Family enrollment in MA is projected to be 9% lower than forecast in November. F.Y. 1999 General Assistance Medical Care participation is down 14%, and Aid to Families with Dependent Children (AFDC) enrollment is 11% lower than forecast in November.

AFDC projections through 2001 also now indicate an actual decrease in the number of persons receiving assistance from F.Y. 1996. Spending for all Family Support Programs during the 1998-99 biennium is expected to decline by \$41.0 million from the most recent forecast.

AFDC Caseload Forecasts



Lower Health Care Costs Projected

F.Y. 1998-99 spending for Medical Assistance declined by \$228 million from the November forecast. Improved cost information significantly changed spending projections for aged and disabled basic care, which dropped \$137 million for the biennium. In November, average costs were expected to jump from \$434 per month in F.Y. 1996 to \$501 per month in F.Y. 1997. More recent analysis suggests that most of the increase will not occur, due in part to much lower than expected costs for Supplemental Security Income (SSI)-Disabled enrollees.

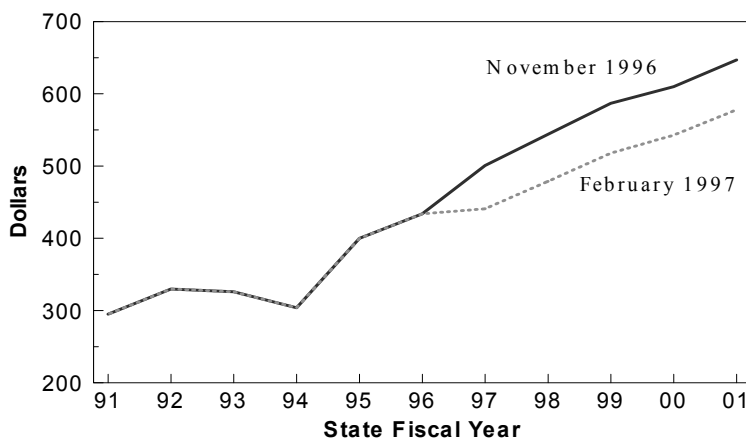
Further health care savings are anticipated in the other parts of the MA program. Spending for basic care for AFDC enrollees and families declines by \$59 million over the biennium. Small change in service costs provide an additional \$13 million in savings for spending on long term care facilities and \$9 million in long term care waiver programs. An additional \$10 million saving is due to reduced expenditures for discretionary inflation.

Savings Not Caused By Federal Changes

The February forecast is based on current Minnesota law and does not reflect the replacement of AFDC with the Temporary Assistance to Needy Families (TANF) block grants. Projected AFDC spending will continue to serve as a current law benchmark for decision-making during the 1997 legislative session.

Medical Assistance

Monthly Average Payments Forecast



Human Services Spending Declines by \$403 Million in F.Y. 2000-01

In F.Y. 2000-01, Human Services spending will decline by \$403 million from November estimates. The forecast shifts current spending estimates downward and moderates future spending growth. When compared to the F.Y. 1998-99 biennium, Human Services expenditures grow by \$1.001 billion, down from the \$1.116 billion growth estimated in November. Changes in the February forecast include the following:

- ◆ \$175 million in lower estimated spending for MA aged and disabled basic care;
- ◆ \$78 million in lower estimated MA costs for AFDC and family basic care;
- ◆ \$30 million in lower anticipated costs for MA long term care facilities and waived programs;
- ◆ \$64 million decline in total family support spending;
- ◆ \$8 million drop in other programs;
- ◆ \$48 million less in discretionary inflation due to lower program spending.

As discussed earlier, new information shows that the cost trend for basic care is significantly lower than stated in November. When that change is carried into later years of the forecast, the impact grows even larger. The February forecast projects an average monthly basic health care cost of \$578 for elderly and disabled MA enrollees. That average cost is nearly 11% lower than the \$647 cost anticipated in the November forecast.

Lower enrollment rates are sustained throughout the next biennium. Average monthly enrollment in MA by elderly and disabled persons is estimated to reach 147,000, down by nearly 9,000 from the November forecast. Family enrollment in MA and AFDC also is revised downward from November. Their MA participation is expected to reach 325,000 by F.Y. 2001, a decrease of 38,000 from earlier estimates.

The same enrollment changes are seen in family support programs. Minnesota's strong economy is expected to continue to hold down welfare caseload during the 2000-01 biennium. The projected number of AFDC recipients during the biennium has been adjusted downward by over 60,000 individuals. These forecast changes lower spending expectations in the current AFDC program by \$48 million over the biennium.

State Institutions

Correctional Cost Estimates Drop Slightly For F.Y. 1998-2001

The only significant forecast change in this area results from new estimates of prison inmate populations. Projections made in December, 1996 by the Sentencing Guidelines Commission and the Department of Corrections reduced the expected increase in the adult male inmate population for the next biennium by an average of 250 inmates. Total savings for the 1998-99 biennium are projected at \$11.1 million. This change in forecast was incorporated into the Governor's biennial budget recommendations made in January. The forecast for the 2000-01 biennium has also been reduced by \$11.4 million based on these new estimates.

Even though prison population projections are lower than anticipated one year ago, the number of adult inmates is still expected to increase by approximately 200 annually through the next biennium. Inmate populations are projected at just under 5,800 by the end of 1999, and at just over 6,200 by the end of 2001. Any changes made in prison sentencing laws will affect subsequent projections.

All Other Spending Estimates Essentially Unchanged

The F.Y. 1998-2001 projections for spending by the legislature, judicial and constitutional officers, higher education systems, other major local assistance programs, state agencies operations and grants, and debt service show only minor changes from November; net decreases of \$3 million for F.Y. 1998-99 and \$4 million for F.Y. 2000-01. These generally reflect only minor technical adjustments made to base level spending.

F.Y. 1991-2001 STATE AND LOCAL REVENUE Price of Government

To facilitate discussion on the size and cost of government at all levels in Minnesota, historical and projected data on total state and local revenues and Minnesota personal income is developed as part of the state forecast. The "Price of Government" is defined as total state and local revenues as a percent of personal income. As such, it is a measure of the overall size of Minnesota state and local government and relative cost to taxpayers. The information highlights historical and projected revenues, by government type, for state taxes, local property taxes, local sales taxes and other revenue sources for the various units of government.

Total state and local revenues shown below include only those revenues directly generated by state and local governmental units -- "own-source revenues". All inter-governmental revenues and federal aids have been subtracted from the revenue estimates. The forecast includes all state tax revenues, all local sales and property tax revenues, all state and local fees and charges and miscellaneous revenues.

State and local revenues in F.Y. 1996 are expected to be 18.5% of personal income; but will decline to 17.7% by F.Y. 2001 based on current forecast projections.

		(\$ in billions)			Revenue as % of Pers. Income
		Revenue			
Personal Income		State	Local	Total	
CY90/FY91	82.33	8.31	5.99	14.30	17.4%
CY91/FY92	85.36	8.81	6.56	15.37	18.0%
CY92/FY93	91.51	9.56	6.98	16.55	18.1%
CY93/FY94	94.62	10.17	7.42	17.59	18.6%
CY94/FY95	101.65	10.82	7.77	18.59	18.3%
CY95/FY96	107.72	11.76	8.19	19.94	18.5%
CY96/FY97	115.27	12.44	8.71	21.15	18.3%
CY97/FY98	120.85	12.67	9.17	21.85	18.1%
CY98/FY99	126.49	13.14	9.62	22.77	18.0%
CY99/FY00	132.53	13.57	10.11	23.67	17.9%
CY00/FY01	139.30	14.02	10.64	24.66	17.7%

Forecast increases in state revenues, which exceed changes in personal income growth, act to increase "Price of Government" from targets adopted in February, 1995.

In early 1995, the Governor recommended and the legislature adopted a resolution setting the "Price of Government" at 18.2 percent of personal income for F.Y.'s 1996 and 1997 and 17.8 percent for the F.Y. 1998-99 biennium. The

targets recommended by the Governor and adopted by the legislature were based on the February 1995 forecast.

Forecast increases in state revenues since February, 1995 have, on a percentage basis, exceeded the accompanying increase in forecast personal income through F.Y. 1999, the period covered by the original price of government resolution. As a result, total revenues, as a percent of personal income, have increased slightly over the period F.Y. 1996 - 1999.

The following table highlights changes since the Price of Government targets were adopted:

\$ In Billions	C.Y. 1993 F.Y. 1994	C.Y.1994 F.Y. 1995	C.Y.1995 F.Y.1996	C.Y.1996 F.Y.1997	C.Y.1997 F.Y.1998	C.Y.1998 F.Y.1999
State Own Source Revenues:						
February 1995	10.166	10.801	10.960	11.306	11.657	12.013
February 1997	10.166	10.821	11.756	12.437	12.674	13.142
Difference	0.000	0.020	0.796	1.131	1.017	1.129
Local Non-school Revenues:						
February 1995	5.265	5.575	5.947	6.172	6.409	6.673
February 1997	5.242	5.462	5.771	6.109	6.443	6.712
Difference	(0.023)	(0.113)	(0.176)	(0.063)	0.034	0.039
Local School Revenues:						
February 1995	2.179	2.254	2.415	2.534	2.621	2.743
February 1997	2.182	2.309	2.414	2.598	2.731	2.912
Difference	0.003	0.055	(0.001)	0.064	0.110	0.169
Total Revenues:						
February 1995	17.610	18.630	19.322	20.012	20.688	21.429
February 1997	17.589	18.591	19.941	21.145	21.848	22.767
Difference	(0.021)	(0.039)	0.619	1.133	1.160	1.338
Minnesota Personal Income:						
February 1995	94.940	101.170	105.990	110.250	115.490	120.850
February 1997	94.615	101.653	107.720	115.268	120.852	126.490
Difference	(0.325)	0.483	1.730	5.018	5.362	5.640
Percent of Personal Income:						
February 1995	18.5%	18.4%	18.2%	18.2%	17.9%	17.7%
February 1997	18.6%	18.3%	18.5%	18.3%	18.1%	18.0%
Difference	0.1%	-0.1%	0.3%	0.1%	0.2%	0.3%

ALTERNATIVE FORECAST COMPARISON

Real GDP (Annual Rates)

	<u>96II</u>	<u>96III</u>	<u>96IV</u>	<u>97I</u>	<u>97II</u>	<u>97III</u>	<u>97IV</u>	<u>95A</u>	<u>96A</u>	<u>97A</u>	<u>98A</u>
DRI Control (02-97)	4.7	2.1	4.7	2.5	2.3	1.8	2.3	2.0	2.5	2.9	2.1
Goldman-Sachs (01-97)	4.7	2.1	4.3	2.4	3.4	2.5	2.1	2.0	2.5	3.0	1.9
Blue Chip (02-97)	4.7	2.1	4.7	2.4	2.5	2.5	2.5	2.0	2.5	2.5	2.0
American Express (IDS) (02-97)	4.7	2.1	4.7	2.2	3.0	3.3	2.1	1.3*	3.4*	2.6*	1.9*
Merrill-Lynch (02-97)	4.7	2.1	4.7	1.8	2.1	2.1	2.2	2.0	2.5	2.7	2.0

* 4Q/4Q

GDP Deflator (Chain-Weighted, Annual Rates)

	<u>96II</u>	<u>96III</u>	<u>96IV</u>	<u>97I</u>	<u>97II</u>	<u>97III</u>	<u>97IV</u>	<u>95A</u>	<u>96A</u>	<u>97A</u>	<u>98A</u>
DRI Control (02-97)	1.8	1.5	1.5	2.0	2.2	2.3	2.2	2.5	2.0	1.9	2.3
Goldman-Sachs (01-97)	2.1	2.0	1.9	1.9	2.0	2.3	2.6	3.0	2.0	2.5	3.1
Blue Chip (02-97)	2.1	2.0	1.9	1.9	2.0	2.3	2.6	3.0	2.0	2.5	2.5
American Express (IDS) (02-97)	2.1	2.0	1.8	2.0	2.4	2.6	2.7	2.5*	2.1*	2.6*	2.8*
Merrill-Lynch (02-97)	2.1	2.0	1.8	2.2	1.8	2.2	2.2	2.5	2.1	2.0	2.2

* 4Q/4Q

FORECAST COMPARISONS

Real Economic Growth (Annual Percent Change in Real GDP)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Feb 93 DRI Control	2.4	2.5				
Nov 93 DRI Control	2.1	3.1				
Feb 94 DRI Control	2.1	3.3				
Nov 94 DRI Control	2.1	3.0	1.8 ⁽¹⁾	1.8 ⁽¹⁾	1.8 ⁽¹⁾	1.8 ⁽¹⁾
Feb 95 DRI Control	1.7	3.0	1.7 ⁽¹⁾	1.7 ⁽¹⁾	1.7 ⁽¹⁾	1.7 ⁽¹⁾
Nov 95 DRI Control	2.1	2.8	1.7 ⁽²⁾	1.7 ⁽²⁾	1.7 ⁽²⁾	1.7 ⁽²⁾
Feb 96 DRI Control	2.1	2.8	1.7 ⁽²⁾	1.7 ⁽²⁾	1.7 ⁽²⁾	1.7 ⁽²⁾
Nov 96 DRI Control	2.4	2.4	2.4	2.0	1.6 ⁽³⁾	1.6 ⁽³⁾
Feb 97 DRI Control	2.5	2.9	2.1	2.1	1.6 ⁽³⁾	1.6 ⁽³⁾

Inflation (Annual Percent Change in Implicit GDP Deflator - 1992 = 100)

Feb 93 DRI Control	2.4	2.5				
Nov 93 DRI Control	2.7	2.4				
Feb 94 DRI Control	2.6	2.4				
Nov 94 DRI Control	2.7	2.8	3.7 ⁽³⁾	3.7 ⁽³⁾	3.7 ⁽³⁾	3.7 ⁽³⁾
Feb 95 DRI Control	2.4	2.3	3.2 ⁽³⁾	3.2 ⁽³⁾	3.2 ⁽³⁾	3.2 ⁽³⁾
Nov 95 DRI Control	2.0	1.9	2.1 ⁽⁴⁾	2.4 ⁽⁴⁾	2.1 ⁽⁴⁾	2.4 ⁽⁴⁾
Feb 96 DRI Control	1.9	1.7	2.1 ⁽⁵⁾	2.4 ⁽⁵⁾	2.1 ⁽⁵⁾	2.4 ⁽⁵⁾
Nov 96 DRI Control	2.1	2.4	2.3	2.4	2.6	2.8
Feb 97 DRI Control	2.0	1.9	2.3	2.5	2.7	2.9

(1) Long-term trend from DRI Cyclelong, Summer 1994 and Winter 1994/95.

(2) Long-term trend from DRI Cyclelong, Summer 1995.

(3) Long-term trend from DRI Cyclelong, Summer 1996.

(4) Summer 1994 Trendlong Forecast.

(5) November 1995 Trendlong.

MINNESOTA - U.S. COMPARISON REPORT

Annual Percent Changes

February 1997 Control

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Wage and Salary Income								
United States	5.6	3.5	4.9	5.8	5.8	5.7	4.8	4.5
Minnesota	7.9	4.2	6.4	6.8	7.0	5.4	4.8	4.7
Implied Annual Wage								
United States	5.3	1.5	1.8	3.1	3.7	3.5	3.1	3.1
Minnesota	5.5	1.6	3.2	3.9	4.7	3.6	3.4	3.4
Non-Farm Employment								
United States	0.3	1.9	3.1	2.7	2.0	2.1	1.6	1.2
Minnesota	2.3	2.6	3.0	2.8	2.2	1.7	1.4	1.3
Personal Income								
United States	6.0	4.1	5.0	6.3	5.5	5.5	4.9	4.8
Minnesota	7.2	3.4	7.4	6.0	7.0	4.8	4.7	4.8

Comparison of Actual and Estimated Non-Restricted Revenues
Fiscal Year-To-Date, Through January, 1997
(\$ in thousands)

	<u>Forecast Revenues</u>	<u>Actual Revenues</u>	<u>Variance Act-Fcst</u>
Individual Income Tax			
Withholding	2,205,719	2,257,512	51,793
Declarations	389,670	536,096	146,426
Miscellaneous	82,426	81,363	(1,063)
Gross	2,677,815	2,874,971	197,156
Refunds	42,383	38,005	(4,378)
Net	2,635,432	2,836,966	201,534
Corporate & Bank Excise			
Declarations	347,307	339,463	(7,844)
Miscellaneous	48,028	48,316	288
Gross	395,335	387,779	(7,556)
Refunds	60,662	72,618	11,956
Net	334,673	315,161	(19,512)
Sales Tax			
Gross	1,800,682	1,800,097	(585)
Refunds	64,028	63,474	(554)
Net	1,736,654	1,736,623	(31)
Motor Vehicle Excise	218,342	222,576	4,234
Other Revenues			
Inherit/Gift/Estate	21,050	29,424	8,374
Liquor/Wine/Beer	28,461	30,712	2,251
Cigarette & Tobacco	86,823	89,220	2,397
Deed & Mortgage	57,780	60,430	2,650
Insurance Gross Earnings	47,920	54,903	6,983
Lawful Gambling	32,285	31,735	(550)
Health Care Surcharge	69,038	68,562	(475)
Other Taxes	562	643	81
General Fund RTC	16,143	14,683	(1,460)
Income Tax Reciprocity	31,909	31,887	(22)
Investment Income	43,177	50,826	7,649
Other and Unallocated	41,511	50,802	9,291
Other Subtotal	476,659	513,827	37,168
Other Refunds	10,108	10,499	391
Other Net	466,551	503,328	36,778
TOTAL GROSS	5,568,833	5,799,250	230,417
TOTAL REFUNDS	177,181	184,596	7,415
TOTAL NET	5,391,652	5,614,654	223,002

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

(Dollars in Billions)

	Calendar Year					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Minnesota Non-Farm Tax Base						
February 1993 Control	82.077	86.273				
November 1993 Control	82.471	86.332				
February 1994 Control	83.460	87.098				
November 1994 Control	84.722	88.266	91.982	96.902		
February 1995 Control	84.733	88.744	91.190	96.611		
November 1995 Control	85.120	90.170	94.160	97.766		
February 1996 Control	85.120	90.490	94.170	97.880		
November 1996 Control	84.720	90.720	95.750	100.570	105.170	109.960
February 1997 Control	84.720	90.750	96.410	101.500	106.270	111.140
Minnesota Wage and Salary Income						
February 1993 Control	61.085	63.933				
November 1993 Control	61.203	63.959				
February 1994 Control	61.883	64.403				
November 1994 Control	62.562	65.234	68.004	71.395		
February 1995 Control	62.649	65.641	68.310	71.447		
November 1995 Control	62.844	66.389	69.518	72.278		
February 1996 Control	62.844	66.739	69.754	72.680		
November 1996 Control	62.737	67.004	71.244	74.966	78.407	82.127
February 1997 Control	62.737	67.004	71.712	75.572	79.203	82.961
Minnesota Property Income						
February 1993 Control	14.776	15.937				
November 1993 Control	14.919	15.720				
February 1994 Control	15.027	15.958				
November 1994 Control	15.442	16.219	16.961	18.013		
February 1995 Control	15.400	16.315	16.985	17.933		
November 1995 Control	15.428	16.679	17.408	17.994		
February 1996 Control	15.428	16.653	17.077	17.604		
November 1996 Control	15.245	16.678	17.084	17.987	18.925	19.740
February 1997 Control	15.245	16.678	17.212	18.133	19.011	19.782
Minnesota Proprietors' Income						
February 1993 Control	6.217	6.403				
November 1993 Control	6.348	6.653				
February 1994 Control	6.550	6.737				
November 1994 Control	6.718	6.813	7.016	7.494		
February 1995 Control	6.831	6.787	6.895	7.232		
November 1995 Control	6.845	7.103	7.238	7.490		
February 1996 Control	6.845	7.098	7.337	7.597		
November 1996 Control	6.741	7.071	7.422	7.617	7.834	8.099
February 1997 Control	6.741	7.071	7.489	7.798	8.056	8.401

FACTORS AFFECTING SALES, CORPORATE INCOME AND MOTOR VEHICLE EXCISE TAXES

(Dollars in Billions)

	Fiscal Year					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
SALES TAX						
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
February 1993 Control	5.984	6.252				
November 1993 Control	6.533	6.666				
February 1994 Control	6.672	6.934				
November 1994 Control	6.677	7.192	7.236	7.577		
February 1995 Control	6.675	7.273	7.308	7.558		
November 1995 Control	6.673	7.378	7.764	8.031		
February 1996 Control	6.673	7.378	7.729	8.151		
November 1996 Control*	6.587	7.286	7.758	8.233	8.601	8.948
February 1997 Control	6.587	7.286	7.758	8.233	8.705	9.026
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
February 1993 Control	8.297	8.926				
November 1993 Control	8.678	9.322				
February 1994 Control	9.265	9.794				
November 1994 Control	6.754	7.450	7.665	7.702		
February 1995 Control	6.755	7.683	8.029	7.935		
November 1995 Control	6.744	7.866	8.613	8.763		
February 1996 Control	6.744	7.857	8.679	8.971		
November 1996 Control	6.403	7.301	8.069	8.757	9.316	9.900
February 1997 Control	6.403	7.301	8.066	8.777	9.503	10.154
Minnesota's Proxy Share of U.S. Construction Spending						
February 1993 Control	8.914	8.980				
November 1993 Control	9.412	9.809				
February 1994 Control	9.960	10.420				
November 1994 Control	4.680	4.770	4.813	4.973		
February 1995 Control	4.680	4.791	4.941	4.974		
November 1995 Control	4.511	4.641	4.830	5.024		
February 1996 Control	4.511	4.645	4.855	4.916		
November 1996 Control	4.525	4.759	4.966	5.105	5.243	5.356
February 1997 Control	4.525	4.759	4.966	5.170	5.290	5.344

* Reflects data revision.

FACTORS AFFECTING SALES, CORPORATE INCOME AND MOTOR VEHICLE EXCISE TAXES

(Dollars in Billions)

	Fiscal Year					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
SALES TAX (Cont.)						
Minnesota Non-Farm Personal Income						
February 1993 Control	94.972	100.118				
November 1993 Control	96.090	100.800				
February 1994 Control	96.070	102.000				
November 1994 Control	97.810	102.120	106.48	111.74		
February 1995 Control	97.680	102.430	106.84	111.63		
November 1995 Control	97.640	104.500	108.91	113.59		
February 1996 Control	97.640	104.340	109.15	113.74		
November 1996 Control	97.140	104.120	110.87	115.94	121.93	127.60
February 1997 Control	97.140	104.120	110.85	117.14	121.03	128.57

MOTOR VEHICLE EXCISE TAX

Minnesota's Proxy Share of U.S. Consumption of Motor Vehicle and Parts Parts

February 1993 Control	4.690	4.804				
November 1993 Control	4.944	5.356				
February 1994 Control	5.103	5.488				
November 1994 Control	4.929	5.320	5.322	5.491		
February 1995 Control	4.929	5.320	5.322	5.491		
November 1995 Control	4.948	5.264	5.479	5.560		
February 1996 Control	4.948	5.161	5.324	5.357		
November 1996 Control	4.948	5.149	5.310	5.381	5.582	5.806
February 1997 Control	4.948	5.149	5.310	5.290	5.404	5.625

CORPORATE INCOME TAX

(Calendar Year)

U.S. Corporation Profits

February 1993 Control	443.7	451.1				
November 1993 Control	448.0	469.6				
February 1994 Control	439.9	471.1				
November 1994 Control	428.5	476.3	465.3	491.6		
February 1995 Control	425.6	480.2	460.8	467.7		
November 1995 Control	425.6	475.9	477.4	476.7		
February 1996 Control	432.0	476.2	472.5	476.6		
November 1996 Control*	491.0	576.8	624.6	618.2	642.6	671.4
February 1997 Control	491.0	576.8	624.6	645.3	659.6	677.8

* Change in definition

February 1997 Forecast

F.Y. 1997-99

(\$ in Thousands)

	2-97 Forecast F.Y. 1997	2-97 Forecast F.Y. 1998	2-97 Forecast F.Y. 1999
Actual & Estimated Resources:			
Balance Forward From Prior Year	1,343,277	1,662,800	2,165,479
Current Resources:			
Net Non-Dedicated Revenue			
Individual Income Tax	4,545,700	4,642,200	4,883,600
Sales Tax	3,040,600	3,199,800	3,353,900
Corporate Income Tax	668,200	693,300	706,000
Motor Vehicle Excise	377,500	360,800	373,900
Other Non-Dedicated Revenue	943,466	916,349	902,602
Subtotal Net Non-Ded. Rev.	9,575,466	9,812,449	10,220,002
Dedicated Revenue	130,255	120,255	120,255
Transfers In	208,196	210,136	228,339
Prior Year Adjustments	20,450	20,450	20,450
Subtotal-Current Resources	9,934,367	10,163,290	10,589,046
Total Resources Available	11,277,644	11,826,090	12,754,525
Actual & Estimated Spending by Function:			
Education/Children & Families	3,051,024	3,264,221	3,445,735
Property Tax Recognition	180,000	0	0
School Payment Change (90/10)	156,421	0	0
Post-Secondary Education	1,084,053	1,065,029	1,106,011
Property Tax Aids & Credits	1,199,302	1,220,875	1,229,766
Other Major Local Assistance	444,171	467,861	490,708
Health Care	1,496,332	1,693,773	1,921,265
Family Support	213,754	233,404	243,173
State Operated Institutions	429,037	437,024	460,235
Legisl., Judicial, Const. Officers	251,910	237,049	244,481
State Agencies' Ops. & Grants	752,240	672,324	688,224
Debt Service	241,345	253,795	291,964
Estimated Cancellations	(15,000)	(5,000)	(15,000)
Subtotal-Major Spending Categories	9,484,859	9,540,356	10,106,561
Dedicated Expenditures	130,255	120,255	120,255
Total Expenditures & Transfers	9,614,844	9,660,611	10,226,816
Balance Before Reserves	1,662,800	2,165,479	2,527,709
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	261,000	261,000	261,000
School Aid Reserve	113,800	113,800	113,800
Appropriations Carried Forward	72,000	72,000	72,000

Budgetary Balance	866,000	1,368,679	1,730,909
--------------------------	----------------	------------------	------------------

Change in F.Y. 1996-97 Current Biennium
February 1997 Forecast
(\$ in Thousands)

	11-96 Forecast F.Y. 1996-97	2-97 Forecast F.Y. 1996-97	Difference
Actual & Estimated Resources:			
Balance Forward From Prior Year	1,020,499	1,020,499	0
Current Resources:			
Net Non-Dedicated Revenue			
Individual Income Tax	8,511,932	8,681,032	169,100
Sales Tax	5,930,068	5,941,868	11,800
Corporate Income Tax	1,376,535	1,369,935	(6,600)
Motor Vehicle Excise	756,119	758,719	2,600
Other Non-Dedicated Revenue	1,754,959	1,811,416	56,457
Subtotal Net Non-Ded. Rev.	18,329,613	18,562,970	233,357
Dedicated Revenue	267,243	267,243	0
Transfers In	473,422	476,151	2,729
Prior Year Adjustments	28,971	28,971	0
Subtotal-Current Resources	19,099,249	19,335,335	236,086
Total Resources Available	20,119,748	20,355,834	236,086
Actual & Estimated Spending by Function:			
Education /Children & Families	5,940,652	5,947,267	6,615
Property Tax Recognition	494,832	494,832	0
School Payment Change (90/10)	156,751	156,421	(330)
Post-Secondary Education	2,147,577	2,146,199	(1,378)
Property Tax Aids & Credits	2,411,860	2,411,888	28
Other Major Local Assistance	833,367	832,150	(1,217)
Health Care	2,976,294	2,879,612	(96,682)
Family Support	472,354	463,177	(9,177)
State Operated Institutions	826,523	826,647	124
Legisl., Judicial, Const. Officers	476,375	478,196	1,821
State Agencies' Ops. & Grants	1,418,607	1,411,112	(7,495)
Debt Service	438,934	438,934	0
Estimated Cancellations	(15,000)	(15,000)	0
Subtotal-Major Spending Categories	18,579,126	18,471,435	(107,691)
Dedicated Expenditures	221,599	221,599	0
Total Expenditures & Transfers	18,800,725	18,693,034	(107,691)
Balance Before Reserves	1,319,023	1,662,800	343,777
Cash Flow Account	350,000	350,000	0
Budget Reserve	261,000	261,000	0
School Aid Reserve	113,800	113,800	0
Appropriations Carried Forward	72,000	72,000	0
Budgetary Balance	522,223	866,000	343,777

Change in F.Y. 1998-99 Outlook February 1997 Forecast (\$ in Thousands)

	11-96 Forecast F.Y. 1998-99	2-97 Forecast F.Y. 1998-99	Difference
Actual & Estimated Resources:			
Balance Forward From Prior Year	1,319,023	1,662,800	343,777
Current Resources:			
Net Non-Dedicated Revenue			
Individual Income Tax	9,341,100	9,525,800	184,700
Sales Tax	6,501,100	6,553,700	52,600
Corporate Income Tax	1,384,900	1,399,300	14,400
Motor Vehicle Excise	756,200	734,700	(21,500)
Other Non-Dedicated Revenue	1,762,552	1,818,951	56,399
Subtotal Net Non-Ded. Rev.	19,745,852	20,032,451	286,599
Dedicated Revenue	240,510	240,510	0
Transfers In	457,480	438,475	(19,005)
Prior Year Adjustments	40,900	40,900	0
Subtotal-Current Resources	20,484,742	20,752,336	267,594
Total Resources Available	21,803,765	22,415,136	611,371
Actual & Estimated Spending by Function:			
Education /Children & Families	6,095,440	6,709,956	614,516 ⁽¹⁾
Post-Secondary Education	2,170,260	2,171,040	779
Property Tax Aids & Credits	2,450,960	2,450,641	(319)
Other Major Local Assistance	957,976	958,568	592
Health Care	3,856,095	3,615,038	(241,058)
Family Support	517,590	476,577	(41,013)
State Operated Institutions	907,123	897,259	(9,863)
Legisl., Judicial, Const. Officers	480,205	481,531	1,326
State Agencies' Ops. & Grants	1,366,274	1,360,548	(5,726)
Debt Service	545,896	545,759	(137)
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal-Major Spending Categories	19,327,821	19,646,917	319,096
Dedicated Expenditures	240,510	240,510	0
Total Expenditures & Transfers	19,568,331	19,887,427	319,096
Balance Before Reserves	2,235,434	2,527,709	292,275
Cash Flow Account	350,000	350,000	0
Budget Reserve	261,000	261,000	0
School Aid Reserve	113,800	113,800	0
Appropriations Carried Forward	72,000	72,000	0
Budgetary Balance	1,438,634	1,730,909	292,275⁽²⁾

(1) Includes 1997 law changes removing K-12 spending limits: \$270.2 million in base spending, \$330.1 million in discretionary inflation.

(2) If impact of K-12 law change is excluded, net *forecast* change would be \$892 million.

F.Y. 2000-01 Planning Outlook

November 1996 vs. February 1997

(\$ in Thousands)

	11-96 Plng. Est. F.Y. 2000-01	2-97 Plng. Est. F.Y. 2000-01	Difference
Actual & Estimated Resources:			
Balance Forward From Prior Year	2,235,434	2,527,709	292,275
Current Resources:			
Net Non-Dedicated Revenue			
Individual Income Tax	10,194,800	10,454,600	259,800
Sales Tax	7,077,300	7,140,500	63,200
Corporate Income Tax	1,516,500	1,510,800	(5,700)
Motor Vehicle Excise	819,800	799,900	(19,900)
Other Non-Dedicated Revenue	1,789,210	1,822,706	33,496
Subtotal Net Non-Ded. Rev.	21,397,610	21,728,506	330,896
Dedicated Revenue	240,510	240,510	0
Transfers In	471,262	452,438	(18,824)
Prior Year Adjustments	40,900	40,900	0
Subtotal-Current Resources	22,150,282	22,462,354	312,072
Total Resources Available	24,385,716	24,990,063	604,347
Actual & Estimated Spending by Function:			
Education /Children & Families	6,490,568	7,332,078	841,510 ⁽¹⁾
Post-Secondary Education	2,311,684	2,311,684	0
Property Tax Aids & Credits	2,466,925	2,443,221	(23,704)
Other Major Local Assistance	1,044,727	1,043,065	(1,662)
Health Care	4,794,967	4,463,699	(331,268)
Family Support	575,399	503,754	(71,645)
State Operated Institutions	998,732	987,308	(11,424)
Legisl., Judicial, Const. Officers	509,225	509,225	0
State Agencies' Ops. & Grants	1,450,250	1,448,729	(1,521)
Debt Service	582,386	581,809	(577)
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal-Major Spending Categories	21,204,863	21,604,572	399,709
Dedicated Expenditures	240,510	240,510	0
Total Expenditures & Transfers	21,445,373	21,845,082	399,709
Balance Before Reserves	2,940,343	3,144,981	204,637
Cash Flow Account	350,000	350,000	0
Budget Reserve	261,000	261,000	0
School Aid Reserve	113,800	113,800	0
Appropriations Carried Forward	72,000	72,000	0
Budgetary Balance	2,143,543	2,348,181	204,637⁽²⁾

(1) Includes cumulative impact of 1997 law changes removing K-12 spending limits totaling \$826 million.

(2) If impact of K-12 law change is excluded, net *forecast* change would be \$1.031 billion.

February, 1997 Forecast
State & Local Revenues, C.Y. 1990-2000
Percent of Personal Income
(\$ in Thousands)

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001
State Revenues											
<i>Tax Revenues:</i>											
Individual Income Tax	2,972,983	3,144,636	3,471,374	3,539,994	3,753,268	4,135,332	4,545,700	4,642,200	4,883,600	5,114,200	5,340,400
General Sales Tax	1,965,209	2,193,451	2,378,482	2,522,271	2,722,596	2,901,268	3,040,600	3,199,800	3,353,900	3,497,600	3,642,900
Corporate Income Tax	457,934	420,278	509,534	551,822	665,757	701,735	668,200	693,300	706,000	734,700	776,100
Gasoline & Special Fuels Taxes	430,213	437,817	441,619	457,614	468,738	495,458	516,716	531,451	546,700	559,579	572,811
Motor Vehicle License Tax	351,664	370,650	404,655	425,036	452,317	475,669	491,383	494,886	510,984	514,880	531,377
Motor Vehicle Excise Tax	236,720	270,356	296,284	332,994	347,523	381,219	377,500	360,800	373,900	391,300	408,600
Health Care Taxes	0	0	13,566	64,532	145,978	171,597	190,141	198,187	206,328	213,333	219,047
All Other Taxes	549,253	585,022	662,167	759,729	754,684	812,280	830,470	836,217	848,594	860,925	874,339
Subtotal - State Taxes	6,963,976	7,422,210	8,177,681	8,653,992	9,310,861	10,074,558	10,660,710	10,956,841	11,430,006	11,886,517	12,365,574
<i>Non-Tax Revenues:</i>											
Fees & Charges	249,168	338,879	326,518	366,305	358,331	387,874	430,215	415,635	442,708	419,458	397,024
Investment Earnings	172,861	109,360	77,989	79,419	120,028	150,554	177,480	151,304	121,032	110,481	105,502
Post-Secondary Tuition	354,404	379,134	409,787	415,135	417,787	415,775	442,210	449,591	456,360	456,360	456,360
All Other Resources	570,118	560,559	571,254	650,922	613,591	726,817	726,834	700,914	691,661	692,640	696,031
Subtotal - State Non Tax Revenues	1,346,551	1,387,932	1,385,548	1,511,781	1,509,737	1,681,020	1,776,739	1,717,444	1,711,761	1,678,939	1,654,917
Subtotal - State Own Source Revenues	8,310,527	8,810,142	9,563,229	10,165,773	10,820,598	11,755,578	12,437,449	12,674,285	13,141,767	13,565,456	14,020,491
Federal Grants	2,260,587	2,530,697	2,778,303	3,133,023	3,212,969	3,292,314	3,753,903	3,720,560	3,707,164	3,872,679	3,662,537
TOTAL STATE REVENUES	10,571,114	11,340,839	12,341,532	13,298,796	14,033,567	15,047,892	16,191,352	16,394,845	16,848,931	17,438,135	17,683,028
Local Non-School Revenues											
<i>Tax Revenues:</i>											
Property Tax	1,781,966	1,979,384	2,090,992	2,165,435	2,219,505	2,328,357	2,449,028	2,552,258	2,674,937	2,817,582	2,963,551
Sales Tax	49,852	52,750	60,272	64,023	74,381	78,433	85,406	90,077	94,239	98,179	102,174
Other Taxes	34,131	39,188	42,272	47,093	48,511	52,088	55,928	60,052	62,704	65,612	68,773
Subtotal - Local Taxes	1,865,949	2,071,322	2,193,536	2,276,551	2,342,397	2,458,878	2,590,362	2,702,387	2,831,880	2,981,373	3,134,498
<i>Non-Tax Revenues:</i>											
Special Assessments	203,949	207,957	239,171	241,280	227,548	234,603	241,944	249,589	260,365	272,180	285,024
Licenses and Permits	58,168	62,802	68,530	72,874	78,211	84,176	90,610	97,557	101,704	106,253	111,198
Charges for Services	343,549	371,433	393,946	440,250	437,166	461,966	488,382	516,533	536,367	558,156	581,844
Investment Earnings	326,643	291,536	260,507	253,102	260,010	263,419	266,874	270,376	270,376	270,376	270,376
Selected Enterprise Revenues	1,238,569	1,418,282	1,527,277	1,627,881	1,750,121	1,877,174	2,013,454	2,159,632	2,247,196	2,343,299	2,447,779
Miscellaneous Revenues	300,126	305,924	317,825	329,629	366,829	391,054	417,582	446,652	464,580	484,258	505,650
Subtotal - Local Non Tax Revenues	2,471,004	2,657,934	2,807,256	2,965,016	3,119,885	3,312,392	3,518,846	3,740,339	3,880,588	4,034,522	4,201,871
Subtotal - Local Own Source Revenues	4,336,953	4,729,256	5,000,792	5,241,567	5,462,282	5,771,270	6,109,208	6,442,726	6,712,468	7,015,895	7,336,369
<i>Intergovernmental Revenue:</i>											
State Aid	1,751,600	1,704,411	1,733,571	1,809,720	1,816,841	1,875,203	2,411,643	2,152,987	2,101,856	2,119,201	2,136,974
Local Aid	66,439	72,799	72,554	66,338	72,497	72,543	72,543	72,543	72,543	72,543	72,543
Federal Aid	542,064	470,091	441,744	530,827	509,880	509,047	509,047	509,047	509,047	509,047	509,047
Subtotal - Intergovernmental Revenue	2,360,103	2,247,301	2,247,869	2,406,885	2,399,218	2,456,793	2,993,233	2,734,577	2,683,446	2,700,791	2,718,564
TOTAL LOCAL NON-SCHOOL REVENUES	6,697,056	6,976,557	7,248,661	7,648,452	7,861,500	8,228,063	9,102,441	9,177,303	9,395,914	9,716,686	10,054,933

February, 1997 Forecast
State & Local Revenues, C.Y. 1990-2000
Percent of Personal Income
(\$ in Thousands)

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001
School District Revenues											
<i>Tax Revenues:</i>											
Property Tax	1,358,929	1,516,895	1,614,796	1,783,311	1,877,076	1,946,457	2,084,212	2,164,884	2,289,028	2,401,839	2,547,819
<i>Non-Tax Revenues:</i>											
Sales & Fee Revenue	111,848	110,624	118,700	122,046	127,635	135,688	141,658	147,891	154,398	161,192	168,284
Other Miscellaneous Revenue	181,697	206,996	249,532	276,801	303,902	332,029	372,536	417,986	468,980	526,195	590,391
Subtotal - School District Non Tax Revenues	293,545	317,620	368,232	398,847	431,537	467,717	514,194	565,877	623,378	687,387	758,675
Subtotal - School Dist Own Source Revenues	1,652,474	1,834,515	1,983,028	2,182,158	2,308,613	2,414,174	2,598,406	2,730,761	2,912,406	3,089,226	3,306,494
<i>Intergovernmental Revenue:</i>											
State Aid	2,425,233	2,480,343	2,561,632	2,681,049	3,000,524	3,127,052	3,151,403	3,307,178	3,328,978	3,419,431	3,480,316
Local Aid	41,477	41,335	45,376	45,567	48,272	50,722	50,265	49,813	49,364	48,920	48,480
Federal Aid	182,435	200,860	224,445	236,807	253,810	253,810	253,810	253,810	253,810	253,810	248,375
Subtotal - Intergovernmental Revenue	2,649,145	2,722,538	2,831,453	2,963,423	3,302,606	3,431,584	3,455,478	3,610,801	3,632,152	3,722,161	3,777,171
TOTAL SCHOOL DISTRICT REVENUES	4,301,619	4,557,053	4,814,481	5,145,581	5,611,219	5,845,758	6,053,884	6,341,562	6,544,558	6,811,387	7,083,665

Total State, Local & School District Revenues

<i>Tax Revenues</i>	10,188,854	11,010,427	11,986,013	12,713,854	13,530,334	14,479,893	15,335,284	15,824,112	16,550,914	17,269,729	18,047,891
<i>Non-Tax Revenues</i>	4,111,100	4,363,486	4,561,036	4,875,644	5,061,159	5,461,129	5,809,779	6,023,660	6,215,727	6,400,848	6,615,463
<i>Intergovernmental Revenue</i>	7,269,835	7,500,536	7,857,625	8,503,331	8,914,793	9,180,691	10,202,614	10,065,938	10,022,762	10,295,631	10,158,272
TOTAL ALL REVENUES	21,569,789	22,874,449	24,404,674	26,092,829	27,506,286	29,121,713	31,347,677	31,913,710	32,789,403	33,966,208	34,821,626
Less: Intergovernmental Revenues	(7,269,835)	(7,500,536)	(7,857,625)	(8,503,331)	(8,914,793)	(9,180,691)	(10,202,614)	(10,065,938)	(10,022,762)	(10,295,631)	(10,158,272)
Total Own Source Revenues	14,299,954	15,373,913	16,547,049	17,589,498	18,591,493	19,941,022	21,145,063	21,847,772	22,766,641	23,670,577	24,663,354
Minnesota Personal Income	82,325,000	85,355,000	91,507,500	94,615,000	101,652,500	107,720,000	115,267,500	120,852,500	126,490,000	132,525,000	139,295,000
Revenue as Percent of Personal Income	17.4%	18.0%	18.1%	18.6%	18.3%	18.5%	18.3%	18.1%	18.0%	17.9%	17.7%